TABLE OF CONTENTS

SECTION **PAGE**

INTRODUCTION

1. **THE PROVINCE'S FINANCES** 1

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS 19
3. MANAGEMENT OF GROUND AMBULANCE SERVICES 21
4. SKILLS PEI 47
5. PROVINCIAL NOMINEE PROGRAM: FOLLOW-UP ON THE USE OF PROCEEDS AGREEMENT 69

FINANCIAL AUDITS

6. INTRODUCTION TO FINANCIAL AUDITS 81
7. PUBLIC ACCOUNTS 83
8. APPROPRIATIONS AND SPECIAL WARRANTS 96

UPDATE ON PREVIOUS RECOMMENDATIONS

9. INTRODUCTION 103
   - LONG TERM PLANNING AND ACCESS - COMMUNITY MENTAL HEALTH
   - CONTRACT MANAGEMENT OF PROFESSIONAL SERVICES - TOURISM PEI
   - HIGHWAY CONSTRUCTION
   - GRANTS AND LOANS - OFFICE OF ENERGY EFFICIENCY
   - SPECIAL EDUCATION - EASTERN SCHOOL DISTRICT
   - FOOD SAFETY

TABLE OF CONTENTS

SECTION **PAGE**

9. UPDATE ON PREVIOUS RECOMMENDATIONS (continued...)

- SCHOOL MAINTENANCE - WESTERN SCHOOL BOARD
- INSPECTION OF BRIDGES
- SECURITY ASSESSMENT - DRUG INFORMATION SYSTEM
- PROVINCIAL NOMINEE PROGRAM - IMMIGRANT PARTNER CATEGORY
- IN-PROVINCE PHYSICIAN PAYMENTS
- DEPARTMENT OF SOCIAL SERVICES AND SENIORS - GRANTS TO NON-GOVERNMENT ORGANIZATIONS
- PEI ENERGY CORPORATION

10. PUBLIC ACCOUNTS COMMITTEE 131

11. OFFICE OF THE AUDITOR GENERAL 135

SCHEDULES

SCHEDULE A - APPROPRIATIONS

SCHEDULE B - LIST OF SPECIAL WARRANTS

INTRODUCTION

REPORT OVERVIEW

Under the *Audit Act*, the Auditor General is required to report annually to the Legislative Assembly. This 2013 Annual Report provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year.

The Report deals mainly with matters pertaining to the 2011-12 fiscal year; however, many of the issues identified remain current and still need to be addressed by government. In addition, information is provided on the status of outstanding recommendations from audits reported in previous years.

Statutory requirements which name the Auditor General as the independent auditor make up a large portion of the audit work conducted by the Office. These requirements include the annual financial statement audit of the Public Accounts of the province as well as certain other government entities. We also perform financial statement audits on government entities through non-statutory appointments. Special audits and examinations are carried out with the remainder of our resources. These audits assess the broader management issues affecting an organization or program. The Office strives to provide reasonable audit coverage on a cyclical basis.

This report includes information and discussion on the **Province's Finances**. The section on **Special Audits and Examinations** includes the results of various examinations conducted during the year and summarizes the results of the following special audits and examinations: Management of Ground Ambulance Services, SkillsPEI, and Provincial Nominee Program: Follow-up on the Use of Proceeds Agreement. The **Financial Audits** section provides information on significant issues arising from the audit of the province's consolidated financial statements and other audit procedures conducted by the Office.

As a result of our work, we provide recommendations to departments and agencies to improve public sector management and administration. Each year, we contact departments and agencies to obtain information on the

status of any outstanding recommendations from previous special audits and examinations. This information is included in a separate section of the report entitled **Update on Previous Recommendations**.

The **Standing Committee on Public Accounts** reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the role of this Committee and its proceedings during the past year is provided in a separate section of the report.

The section of the report on the **Office of the Auditor General** provides information on the mission and mandate of the Office and the responsibilities of the Auditor General. Background information is provided on the objectives and accomplishments of the Office and the resources used to achieve them.

ACKNOWLEDGEMENTS

To maximize the contribution the Office makes to the improved management and control of public resources, the cooperation of ministers, deputy ministers, CEOs of Crown corporations and agencies, boards and their staff is essential. I wish to acknowledge the cooperation received in the completion of the audits covered in this Annual Report.

As Acting Auditor General, I would like to thank the dedicated professionals in the Office for their support. The audit work completed, the recommendations for improved public sector management, as well as the preparation of this report, are the result of their efforts. Their commitment and professionalism are essential to the work and continued success of this Office.

Finally, I would like to take this opportunity to acknowledge Mr. Colin Younker who served as Auditor General until October 2012. Mr. Younker provided dedicated service to the Legislative Assembly as Auditor General throughout his 10 year term. During his tenure, he was an ongoing advocate for enhanced accountability and made a significant contribution to improved financial reporting and management practices in the public sector.

INTRODUCTION

APERÇU DU RAPPORT

Selon la *Audit Act* (loi sur la vérification des comptes publics), le vérificateur général doit déposer un rapport devant l'Assemblée législative tous les ans. Le présent rapport, soit celui pour l'année 2013, fournit des observations, des recommandations et des renseignements sur les vérifications et les examens des activités du gouvernement menés par le Bureau au cours de l'année.

Le présent rapport traite principalement d'affaires portant sur l'exercice financier de 2011-2012; toutefois, plusieurs points mis en évidence demeurent actuels et doivent toujours être abordés par le gouvernement. De plus, de l'information est fournie sur l'état des recommandations en suspens découlant de vérifications antérieures.

Les exigences statutaires qui nomment le vérificateur général à titre de vérificateur indépendant définissent une bonne partie du travail de vérification effectué par le Bureau. Ces exigences comprennent la vérification annuelle des états financiers des comptes publics de la province et de certaines autres entités publiques. Nous effectuons également des vérifications pour des entités publiques qui ne sont pas tenues par la loi de faire vérifier leurs états financiers. Le reste de nos ressources sont consacrées à des vérifications et à des examens spéciaux. Ces vérifications portent sur les questions de gestion plus larges liées aux organismes ou aux programmes. Le Bureau s'efforce d'assurer une couverture de vérification raisonnable sur une base cyclique.

Le présent rapport comprend des renseignements et une discussion sur **les finances de la province**. La section sur **les vérifications et examens spéciaux** comprend les résultats de divers examens menés durant l'année; elle résume les résultats des vérifications et examens spéciaux suivants : la gestion des services ambulanciers terrestres, de Compétences Î.-P.-É. et du Programme des candidats de la province - suivi sur l'entente sur l'utilisation du produit. La section de **la vérification des états financiers** fournit des renseignements sur les questions importantes découlant des vérifications des états financiers consolidés de la province et d'autres procédures de vérification menées par le Bureau.

Grâce à notre travail, nous offrons des recommandations aux ministères et aux organismes afin d'améliorer la gestion et l'administration dans le secteur public. Chaque année, nous communiquons avec les ministères et les organismes afin d'obtenir de l'information sur l'état de l'une ou l'autre des recommandations des vérifications et des examens spéciaux précédents. Ces renseignements sont compris dans une section séparée du rapport intitulée *Update on Previous Recommendations* (mise à jour des recommandations antérieures).

Le **Comité permanent sur les comptes publics** révise le rapport annuel du vérificateur général, et joue un rôle important en rendant le gouvernement responsable de la gestion des ressources publiques. Les renseignements sur le rôle de ce comité et de ses travaux au cours de la dernière année apparaissent dans une section particulière du rapport.

La section sur le **Bureau du vérificateur général** offre des renseignements sur la mission et le mandat du Bureau, ainsi que les responsabilités du vérificateur général. Des renseignements généraux sont fournis sur l'objectif et les réalisations du Bureau ainsi que les ressources utilisées pour y parvenir.

REMERCIEMENTS

Pour maximiser la contribution du Bureau à l'amélioration de la gestion des ressources publiques, la collaboration des ministres, des sous-ministres, des directeurs généraux et des conseils d'administration des sociétés d'État et des organismes et de leur personnel est essentielle. Je souhaite souligner la collaboration générale de ces personnes dans le cadre des vérifications présentées dans le présent rapport annuel.

En tant que vérificateur général par intérim, j'aimerais remercier l'équipe dévouée du Bureau pour leur appui. Le travail de vérification effectué, les recommandations énoncées pour l'amélioration de la gestion du secteur public ainsi que la préparation du présent rapport sont le résultat de ses efforts. Leur dévouement et leur professionnalisme sont essentiels à la réalisation des travaux du Bureau et au succès durable de celui-ci.

Pour terminer, j'aimerais prendre le temps de reconnaître M. Colin Younker qui a occupé la fonction de vérificateur général jusqu'à octobre 2012. M. Younker a travaillé avec ardeur pour l'Assemblée législative en tant que vérificateur général tout au long de son mandat de 10 ans. Pendant cette période, il a défendu de façon continue l'importance de la reddition de comptes accrue et a contribué considérablement à l'amélioration de la communication de l'information financière et des pratiques de gestion dans le secteur public.

1. THE PROVINCE'S FINANCES

OVERALL COMMENTS

1.1 Each year, our Office provides commentary on the province's finances. The information presented is based primarily on the consolidated financial statements of the province. Comparisons are made to prior years and various indicators of financial condition are presented.

1.2 The financial position of the province continued to deteriorate over the last year. For the year ended March 31, 2012, the province recorded a deficit of $78.5 million which was approximately $36.5 million greater than budgeted and $15.0 million higher than the previous year. The province's net debt continued to increase in 2012, growing by more than $142.5 million to almost $1.9 billion at March 31, 2012.

1.3 This financial situation represents a significant challenge for the province and its ability to maintain existing programs and services without additional borrowings or increasing the tax burden.

BACKGROUND

1.4 The consolidated financial statements are the primary source of information upon which to assess the operating results and financial position of the province at a point in time. However, the statements alone do not provide a complete perspective of financial condition or how well a province is performing in relation to the overall fiscal or economic environment.

1.5 Consistent with prior years, this chapter provides summary information on the province's finances using several indicators recommended by the Canadian Institute of Chartered Accountants. The indicators provide useful insight into government's ability to maintain its programs and services, the flexibility it has to respond to economic changes, and its vulnerability to sources of outside funding. The indicators provide perspective and assist members of the Legislative Assembly and the public in understanding and interpreting the financial condition of the province.

1.6 Although we provide comments on flexibility and vulnerability, most of the indicators presented relate to sustainability. We expand on certain financial information provided in the Public Accounts by using an extended time period as well as per capita information. For some indicators, comparative information is provided for Nova Scotia and New Brunswick based on information in their Public Accounts.

1.7 Our discussion of the province's finances is based on its consolidated financial statements as reported in the Public Accounts which report the government's financial position and results of operations in accordance with Canadian accounting standards for the public sector. The statements combine the financial activities of departments, Crown corporations, and agencies which collectively form the government reporting entity. Where financial information has been restated due to changes in accounting policies, restated Public Accounts numbers are used. Where restated numbers were not available, we assessed the impact on the indicators and determined the effect was not significant.

1.8 **Appendix I** at the end of this chapter includes definitions of common terms used throughout this chapter.

SUMMARY FINANCIAL INFORMATION

1.9 **Exhibit 1.1** provides a breakdown of the change in the province's annual deficit from 2010-11 to 2011-12. The growth in revenues for 2011-12 was mainly due to an increase of $45.1 million in provincial tax revenue with $26.7 million attributable to personal income taxes. Federal revenue decreased by $16.2 million due to a decline in program funding of $24.4 million offset by increased transfer payments of $8.2 million. The departments of Health and Wellness and Finance and Municipal Affairs accounted for the majority of the increase in expenses.

EXHIBIT 1.1
CHANGE IN DEFICIT
YEAR ENDED MARCH 31
(Millions)

	Revenues	Expenses	Deficit
2010-11 Deficit	**$1,532.0**	**$1,595.5**	**$63.5**
Change in:			
Tax revenue	45.1	-	
Other government revenue	8.2	-	
Sinking fund earnings	(4.2)	-	
Government of Canada	(16.2)		
Government business enterprises	8.7	-	
Health and Wellness	-	23.2	
Innovation and Advanced Learning	-	(1.1)	
Finance and Municipal Affairs	-	18.1	
Community Services, Seniors and Labour	-	4.2	
Education and Early Childhood Development	-	3.1	
Transportation and Infrastructure Renewal	-	(1.2)	
Agriculture	-	5.3	
Justice and Public Safety		2.4	
Interest on debt	-	(1.1)	
Other expenses	-	1.8	
Amortization		3.2	
Amortization of deferred capital contributions	-	(1.3)	
2011-12 Deficit	**$1,573.6**	**$1,652.1**	**$78.5**

1.10 Exhibit 1.2 summarizes the financial position and operating results of the province for the last ten years. It highlights the growth in liabilities, net debt, and the accumulated deficit as well as the frequency of operating deficits.

EXHIBIT 1.2
SUMMARY FINANCIAL INFORMATION
YEAR ENDED MARCH 31
(Millions)

	2003 Restated	2004	2005	2006	2007	2008	2009 Restated	2010	2011 Restated	2012
Financial Assets	$ 720	$ 640	$ 578	$ 643	$ 712	$ 732	$ 655	$ 710	$ 721	$ 827
Liabilities	1,898	1,953	1,908	1,966	2,024	2,079	2,070	2,291	2,430	2,678
Net Debt	1,178	1,313	1,330	1,323	1,312	1,347	1,415	1,581	1,709	1,851
Non Financial Assets	574	583	553	548	561	587	647	739	823	887
Accum'd Deficit	$ 604	$ 730	$ 777	$ 775	$ 751	$ 760	$ 768	$ 842	$ 886	$ 964
Annual Surplus (Deficit)	$ (55)	$ (125)	$ (34)	$ 1	$ 24	$ (4)	$ (31)	$ (74)	$ (64)	$ (79)
Nominal GDP*	$3,765	$3,863	$4,051	$4,166	$4,389	$4,621	$4,764	$4,909	$5,161	$5,353

Source: *PEI Department of Finance, Energy and Municipal Affairs

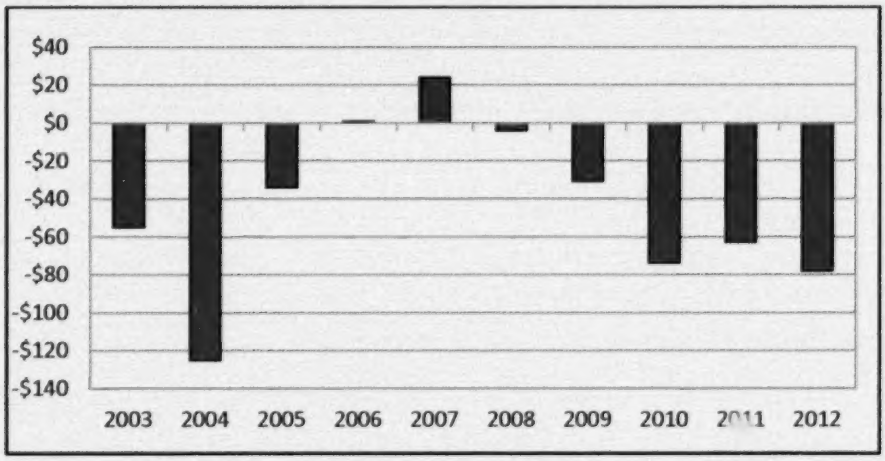
SUSTAINABILITY

1.11 Sustainability is an important element to include in an assessment of financial condition because it indicates whether the province can maintain programs and services and meet existing creditor, employee, and other obligations without increasing debt or the tax burden. A comparison of the government's annual surplus or deficit, net debt, and the provincial Gross Domestic Product (GDP) provides insight into the sustainability of a government's practices of generating revenues and incurring expenses.

Surplus (Deficit)

1.12 The annual surplus or deficit indicates the extent to which a government spends more or less than what is raised in revenue in a particular year. It basically shows whether a government is living within its means. **Exhibit 1.3** shows the annual surplus (deficit) for the last ten years. The province has incurred operating deficits in eight of the last ten years for a net deficit of $441 million over the period.

EXHIBIT 1.3
SURPLUS (DEFICIT)
YEAR ENDED MARCH 31
(Millions)

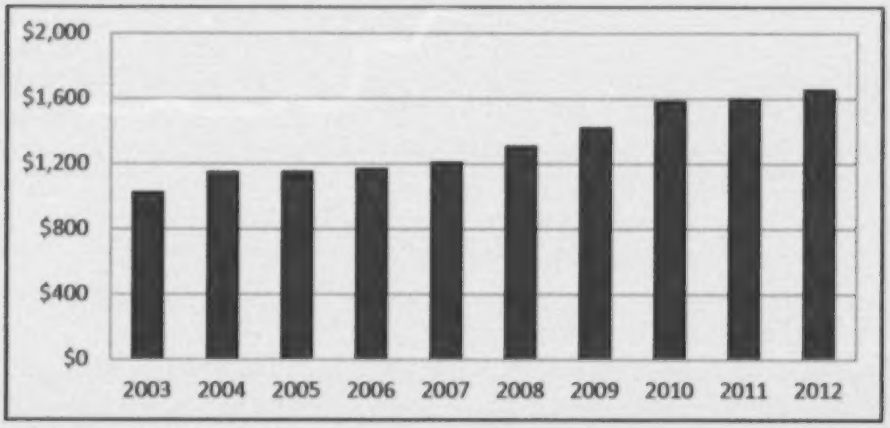


Provincial Expenses

1.13 **Exhibit 1.4** shows that provincial expenses are growing and have increased by approximately 61 percent over the last ten years. Since 2010, over $30 million of the increased annual expenses is attributable to the transfer of responsibility for a number of programs and services formerly delivered by the federal government. These expenses are offset by increased federal transfers.

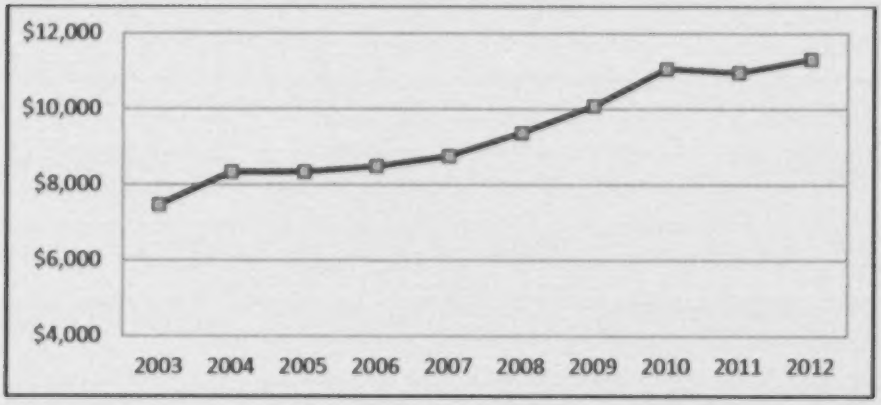
1.14 Per capita spending, as noted in **Exhibit 1.5**, has increased by approximately 52 percent over the same period. For the year ended March 31, 2012, provincial per capita spending was $11,307. In comparison, Nova Scotia's was $10,495 while New Brunswick spent on average $10,655 per resident.

EXHIBIT 1.4
PROVINCIAL EXPENSES
YEAR ENDED MARCH 31
(Millions)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses	$1,024	$1,147	$1,150	$1,169	$1,208	$1,306	$1,420	$1,581	$1,596	$1,652

EXHIBIT 1.5
PROVINCIAL EXPENSES PER CAPITA
YEAR ENDED MARCH 31

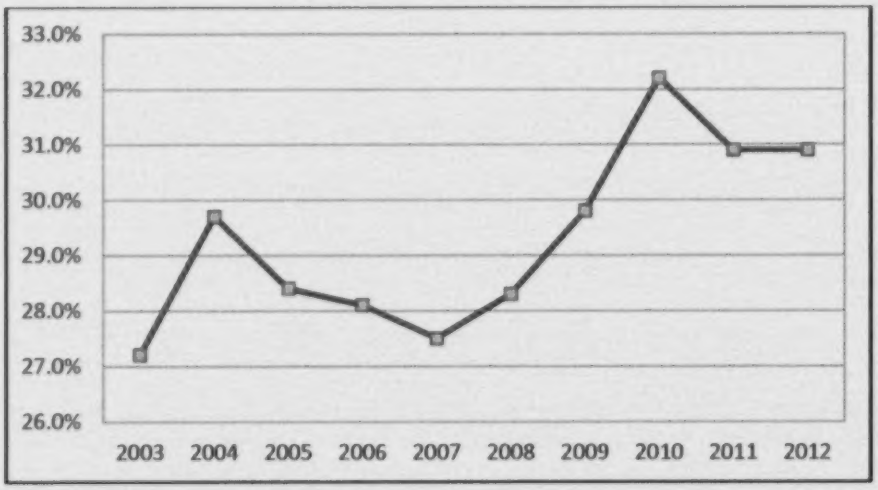


	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses Per Capita	$7,461	$8,328	$8,328	$8,478	$8,745	$9,359	$10,068	$11,052	$10,951	$11,307

Expenses to GDP

1.15 The expenses to GDP indicator is illustrated in **Exhibit 1.6** and shows the trend in government spending over time in relation to the growth in the economy. An increasing expense to GDP ratio indicates government spending is increasing at a rate faster than the growth in the economy. For the year ended March 31, 2012, government spending represented approximately 30.9 percent of GDP. In comparison, Nova Scotia's expenses as a percentage of GDP were 25.3 percent and New Brunswick's were 26.2 percent

EXHIBIT 1.6
PROVINCIAL EXPENSES AS A PERCENTAGE OF GDP
YEAR ENDED MARCH 31

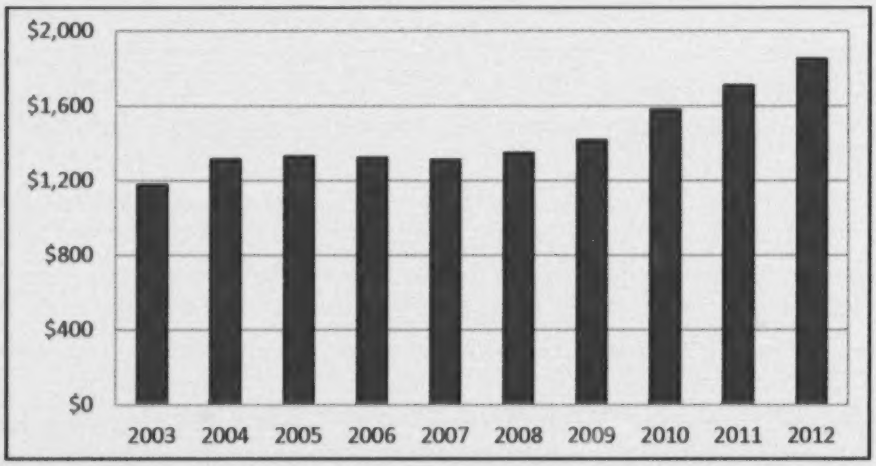


	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Expenses to GDP	27.2%	29.7%	28.4%	28.1%	27.5%	28.3%	29.8%	32.2%	30.9%	30.9%

Net Debt

1.16 Net debt is one of the most important measures of the financial position of the province. **Exhibit 1.7** shows the province's net debt has increased by approximately $673 million or 57 percent over the last ten years and is almost $1.9 billion at March 31, 2012.

EXHIBIT 1.7
PROVINCE'S NET DEBT
YEAR ENDED MARCH 31
(Millions)



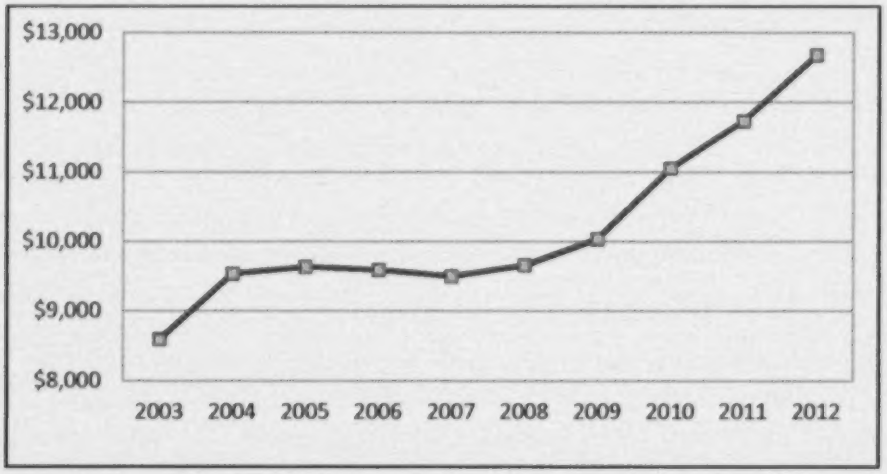
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Debt	$1,178	$1,313	$1,330	$1,323	$1,312	$1,347	$1,415	$1,581	$1,709	$1,851

Net Debt per Capita

1.17 Net debt per capita is the amount of net debt attributable to each resident of the province. **Exhibit 1.8** shows the province's net debt per capita is increasing, which indicates net debt is growing at a faster rate than the population.

1.18 Over the past ten years, the province's net debt per capita has increased by approximately 48 percent. At March 31, 2012, the province's net debt per capita was $12,672. Based on information in their Public Accounts, New Brunswick's net debt per capita was $13,298 and Nova Scotia's was $14,008 at March 31, 2012.

EXHIBIT 1.8
NET DEBT PER CAPITA
YEAR ENDED MARCH 31



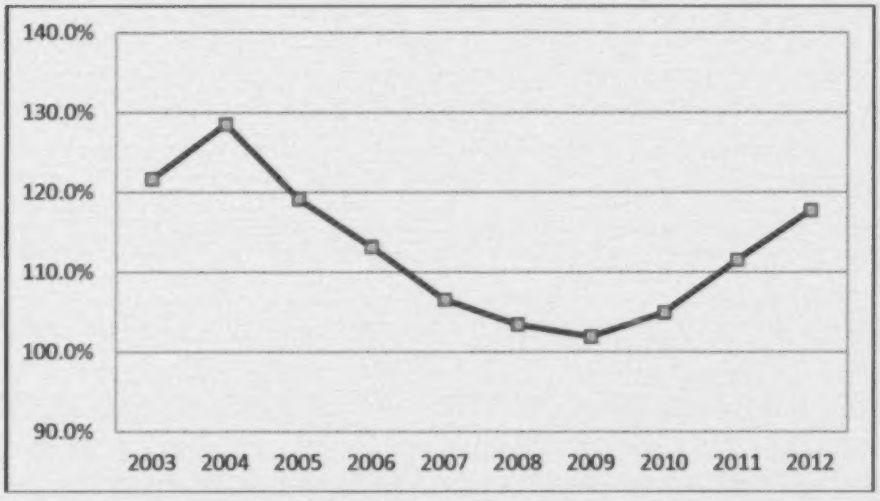
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Debt Per Capita	$8,588	$9,534	$9,631	$9,591	$9,499	$9,653	$10,033	$11,048	$11,729	$12,672

Net Debt to Total Revenue

1.19 The ratio of net debt to total revenue provides a measure of the amount of future revenue that will be required to pay for past operations. An increasing ratio indicates that the province will need more time to eliminate the net debt.

1.20 **Exhibit 1.9** shows that the province's ratio has been increasing since 2009 and at March 31, 2012 was 117.7 percent. New Brunswick's was 129.0 percent and Nova Scotia's was 136.9 percent at March 31, 2012.

EXHIBIT 1.9
NET DEBT TO TOTAL REVENUE
FOR YEAR ENDED MARCH 31
(Millions)



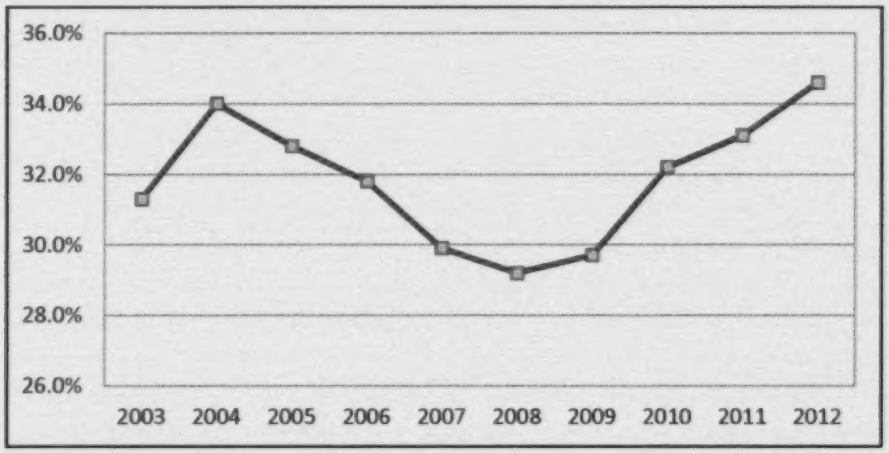
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Debt to Total Revenue	121.6%	128.5%	119.1%	113.1%	106.5%	103.4%	101.9%	104.9%	111.5%	117.7%

Net Debt to GDP

1.21 The net debt to GDP ratio provides insight into the ability of an economy to support government debt. **Exhibit 1.10** summarizes the net debt to GDP ratio for the province for the last ten years. The province's ratio has been increasing in recent years which indicates net debt is growing at a faster rate than the growth in the economy and government debt is becoming more of a burden on the economy.

1.22 At March 31, 2012, the province's net debt to GDP ratio was 34.6 percent and has been trending upward since 2008. In comparison, Nova Scotia's was 35.0 percent and New Brunswick's was 32.6 percent at March 31, 2012.

EXHIBIT 1.10
NET DEBT AS A PERCENTAGE OF GDP
YEAR ENDED MARCH 31



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Debt to GDP	31.3%	34.0%	32.8%	31.8%	29.9%	29.2%	29.7%	32.2%	33.1%	34.6%

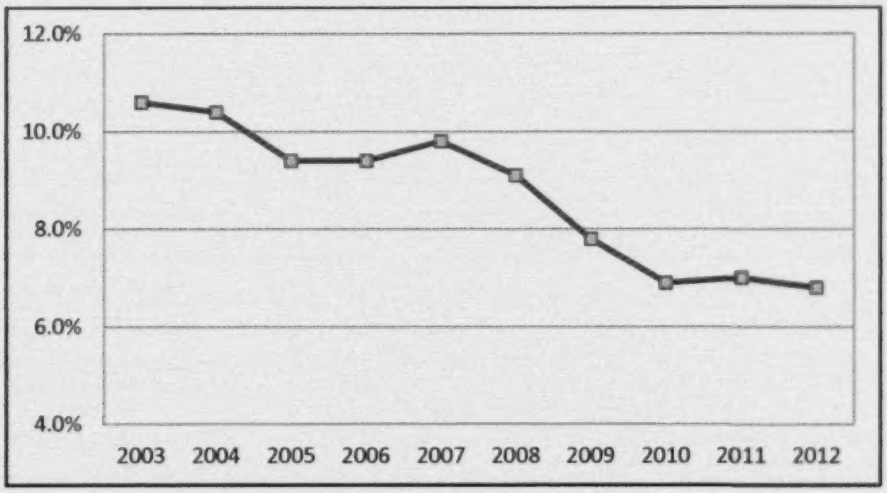
FLEXIBILITY

1.23 Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. A government meets the test of flexibility when it can respond to changing economic conditions, such as a recession or higher interest rates, without making substantial changes to the way it operates.

Interest Costs to Total Revenue

1.24 One measure of a government's flexibility is the interest cost as a percentage of total revenue. This is sometimes referred to as the "interest bite." This indicator illustrates the extent to which past borrowing decisions constrain a government's ability to provide programs and services in the future. In 2012, interest charges on government borrowings were almost $107 million. The trend in the interest bite is shown in **Exhibit 1.11.**

EXHIBIT 1.11
INTEREST COSTS AS A PERCENTAGE OF TOTAL REVENUE
YEAR ENDED MARCH 31



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Interest Costs (millions)	$103.1	$106.5	$104.9	$110.2	$120.3	$118.9	$108.5	$104.0	$107.7	$106.6

1.25 Interest costs are important because revenue used to pay interest costs is unavailable to fund government programs and services. The interest expense has not changed significantly since 2003; however, the amount of debt on which interest is paid has almost doubled over this period. The reason for the comparable interest costs is that interest rates have been historically low in recent years.

1.26 At March 31, 2012, the province had $521 million in short-term loans. Recently, the province has mitigated some of its exposure to interest rate changes by locking in short-term variable rate debt to long-term fixed rate debt. This shifts the interest rate risk to future periods when the debt becomes due. At that time, the province may need to refinance at higher rates which in turn would impact government's ability to sustain programs and services.

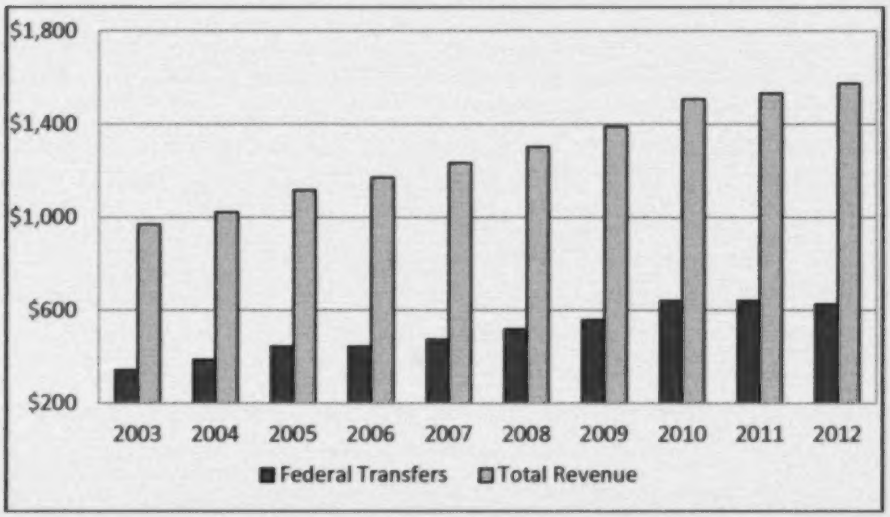
VULNERABILITY

1.27 Vulnerability indicators measure the extent to which government is dependent on sources of revenue outside its control and is thereby exposed to risk which could affect its ability to meet its commitments.

Federal Transfers to Total Revenue

1.28 By comparing the percentage of revenue that comes from the federal government to total revenue, we get a measure of how dependent the province is on transfers. Federal transfers to the province grew from $341 million in 2003 to $625 million in 2012.

EXHIBIT 1.12
FEDERAL TRANSFERS TO TOTAL REVENUE
YEAR ENDED MARCH 31
(Millions)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Revenues	$969	$1,021	$1,116	$1,170	$1,232	$1,302	$1,390	$1,507	$1,532	$1,574
Federal Transfers As Percent of Total Revenue	35.2%	37.9%	39.7%	38.0%	38.5%	39.8%	40.1%	42.4%	41.9%	39.7%

1.29 **Exhibit 1.12** illustrates federal transfers as a percentage of total revenue have increased from 35.2 percent in 2003 to 39.7 percent in 2012. In 2010 and 2011, there was an increase in federal transfers for various programs to promote economic activity. Also, beginning in 2010,

approximately $30 million was received each year from the federal government for a number of programs and services that were previously delivered by the federal government. For the year ended March 31, 2012, New Brunswick's federal transfers to total revenue was approximately 36.9 percent while Nova Scotia's was 32.9 percent.

SUMMARY

1.30 The various indicators presented provide perspective on the province's finances and assist members of the Legislative Assembly in understanding the financial condition of the province. They provide useful insight into government's financial ability to sustain its programs, the flexibility it has to respond to changes in the economy, and its vulnerability to sources of outside funding.

1.31 We recognize there are also other relevant non-financial matters need to be considered by members of the Legislative Assembly. However, it is important for members to have a regular update on the province's finances to assist in understanding the long-term implications of budget and policy decisions and to hold government accountable.

APPENDIX I: FINANCIAL DEFINITIONS

Annual surplus or deficit is the difference between a government's revenues and expenses. This measure shows the extent to which revenues raised in the year were sufficient to cover expenses in that year.

Total liabilities or total debt is the amount owed by government. Government's liabilities include outstanding loans, debentures, pension obligations, and other payables.

Financial assets are cash and other assets which could provide resources to pay liabilities or finance future operations.

Net debt is equal to the difference between the government's total liabilities and its financial assets.

Non-financial assets do not normally provide resources to discharge liabilities. These include tangible capital assets such as buildings, roads, and equipment as well as prepaid expenses and inventories. The book value of tangible capital assets increases as they are acquired and is reduced over a period of time through amortization.

Accumulated deficit represents the province's liabilities net of the assets the province has acquired, both financial and non-financial. It is calculated based on the surpluses and deficits incurred over the years.

Interest charged on borrowings is the amount required to service the debt.

Gross domestic product (GDP) is a measure of the value of all goods and services produced in a jurisdiction in a given period. The province's GDP is measured and reported by Statistics Canada.

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

2.1 The Auditor General has a broad mandate for conducting special audits and examinations. Under the *Audit Act*, the Office may conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with applicable statutory provisions.

2.2 Special audits and examinations are independent and objective assessments of how well government is managing its activities and responsibilities. These audits assess the broader management issues affecting an organization or program and may examine issues of economy and efficiency, procedures to measure effectiveness, accountability relationships, and compliance with authorities. Sometimes referred to as value-for-money audits, special audits and examinations are planned, performed, and reported in accordance with standards established by the Canadian Institute of Chartered Accountants.

2.3 There are three distinct phases in these types of audits. In the planning stage, audit staff obtain a thorough knowledge of the organization or program selected for audit and the environment in which it operates. This knowledge is obtained from a variety of sources and is used to develop an audit plan which sets out the objectives, audit criteria, scope, and timing of the audit. The criteria are the standards against which performance is assessed. They are developed by the auditor and are often based on regulations, policies, or other generally accepted sources. Management is responsible for the subject matter under audit and accepts the suitability of the audit criteria. During the second, or implementation phase, the auditor gathers sufficient appropriate audit evidence through such procedures as performing tests, reviewing files, and interviewing key personnel. The audit evidence is then evaluated and analyzed. In this phase, we assess performance against established criteria and identify findings which are discussed with management prior to drafting our report. Senior management responsible for the audit subject is provided with a copy of the draft audit report for discussion purposes. At the conclusion of the audit, a final report is issued to the department, Crown

corporation, or agency, and a written response is requested from management.

2.4 Due to the size of our Office and the complexity and magnitude of government operations, we cannot audit all government programs on an annual basis. In determining our audit work plan, we consider numerous factors including the total revenues and expenses, the results of previous audits, and the complexity of entity operations. In addition, we also consider the significance of potential issues that may be identified by an audit, and the impact of the subject matter on the public.

2.5 As a result of our work, we provide recommendations to management to address issues identified. We do not, however, infringe on management's right to select the most appropriate course of action to deal with the issues identified. As auditors, our primary concern is that action is taken to address the issues identified as a result of our audits.

2.6 This report provides information on the following special audits and examinations:

- Management of Ground Ambulance Services;
- SkillsPEI; and
- Provincial Nominee Program: Follow-up on the Use of Proceeds Agreement.

3. MANAGEMENT OF GROUND AMBULANCE SERVICES

MAIN POINTS

What we examined

Health PEI (HPEI) provides ground ambulance services to the province pursuant to Part II of the *Public Health Act*. Since April 1, 2006, HPEI has contracted the provision of ground ambulance services to a third party service provider (the service provider). The contract is a performance-based contract which requires the service provider to meet specific performance standards across five key areas. We looked to see whether HPEI had processes to manage the contract with a specific emphasis on monitoring performance and controlling payments. The day-to-day management of the contract is the responsibility of the Emergency Health Services (EHS) section of HPEI.

The *Public Health Act* and the *Emergency Medical Services Regulations* set out the legislative framework for the provision of ground ambulance services. Under that framework, the Emergency Medical Services Board (the Board) is responsible for regulating ground ambulance services. We looked to see that HPEI, through the Board, ensured legislative requirements were met as they pertained primarily to paramedic licensure and ambulance inspections.

Audit work for this report was substantially complete as of November 2012.

Why it's important

Almost $40 million has been paid to the service provider over the five fiscal years ended March 31, 2012, for the provision of ground ambulance services. Over that same period, there have been approximately 70,000 patient transports. Given the significance of the service, it is important that HPEI has procedures in place to manage the contract and ensure patient safety.

What we found

- The *Public Health Act* is outdated and has resulted in a governance structure where three of the eight voting Board members are employed by the contracted service provider.

- Many of the performance standards in the contract are outdated. They date back to at least October 1, 2000, and do not always reflect industry best practices.

- EHS had significant deficiencies in the management of key contractual provisions including incident reporting, documentation of ambulance inspections, and verification of payments.

It is important to note that our observations and conclusions relate only to government's management of ground ambulance services. Consequently, our comments and conclusions do not pertain to any practices or performance of the contracted service provider.

BACKGROUND

3.1 Ambulance transport is defined in the *Public Health Act* as "emergency pre-hospital or between-facility care in transporting patients by ground, using specialized vehicles, equipment and emergency medical technology." Ambulance transport is not an insured service under PEI's Hospital & Medical Services Plans. The province has developed a funding model whereby, in general, the province subsidizes the majority of the transport cost and residents are billed a user fee of $150 by the service provider.

LEGISLATIVE FRAMEWORK

3.2 The legal authorities that govern the structure and provision of ground ambulance services are in a state of transition. On May 30, 2012, the *Ambulance Services Act* was given Royal Assent by the Legislative Assembly; however, as of the date of our audit report, the Act had not been proclaimed. As such, the legislation that governed ground ambulance services during the scope of our audit and extending to the date of our audit report was Part II of the *Public Health Act* and the accompanying *Emergency Medical Services Regulations*. Together they provide the legislative framework for the provision of ground ambulance

services including requirements for operating an ambulance; Emergency Medical Technician (EMT) licenses and scope of practice; and standards for motor vehicles, equipment, and supplies.

PROVISION OF GROUND AMBULANCE SERVICES

3.3 There are several steps involved in providing ground ambulance services in Prince Edward Island. In essence, there are three main functions: ambulance dispatch, the provision of ground ambulance services, and government oversight. Government oversight includes day to day management of the contract and monitoring compliance with prescribed standards.

Ambulance Dispatch

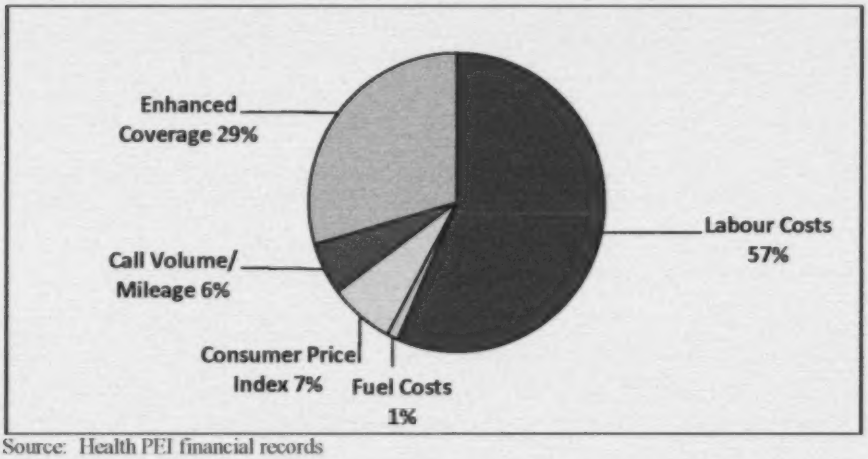
3.4 Ambulance dispatch starts with a 9-1-1 call. In PEI, 9-1-1 service is provided under a separate contract between the Department of Environment, Labour and Justice and the 9-1-1 communications provider. When the 9-1-1 operator determines that an ambulance is necessary, the call is transferred to the medical dispatch operator. At this point, the contract between HPEI and the service provider takes effect. The medical dispatch operator ascertains the acuity of the call and directs the ambulance crew accordingly.

Ground Ambulance Services

3.5 The service provider is a private company and is the sole operator of ground ambulance services under a long-term contract with Health PEI (HPEI). This is a performance based contract whereby HPEI outlines specific deliverables, and the service provider determines how to operate the service to achieve those deliverables. In general, the contracted services include ambulance dispatch, patient transports, and the provision of medical care. Patient transports include pre-hospital, inter-facility, and out-of-province transfers. The provision of medical care is conducted by licensed EMTs (also known as paramedics). For every ambulance call, the service provider creates a Patient Call Report (PCR) that outlines the details of the transport.

3.6 The contract is effective April 1, 2006 to March 31, 2017. The terms allow for renewal options under certain circumstances. The contract value is $3.924 million annually plus allowable annual adjustments for service increases and cost increases. These adjustments are cumulative, and for the fiscal year 2012-13, the annual payment has grown to $7.294 million. **Exhibit 3.1** illustrates the breakdown of the adjustments to the annual payments since the inception of the contract in 2006-07.

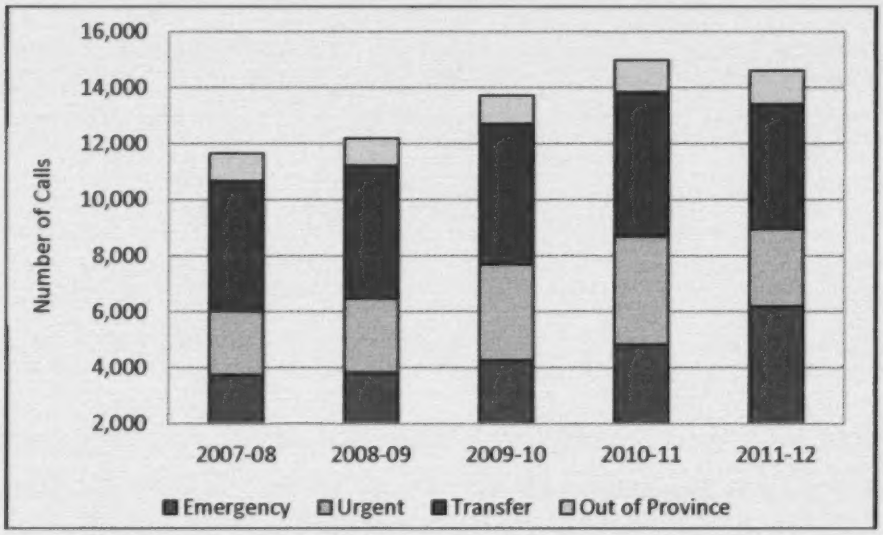
EXHIBIT 3.1
SUMMARY OF ANNUAL PAYMENT ADJUSTMENTS
GROUND AMBULANCE CONTRACT
2006-07 TO 2012-13



Source: Health PEI financial records

3.7 Call volumes for ambulance services for the five fiscal years ended March 31, 2012 are shown in **Exhibit 3.2**. Call volumes have been increasing; however the relative breakdown between the types of calls is fairly consistent from year to year. Management of Emergency Health Services (EHS) has stated that an aging population coupled with the 2007 policy decision to eliminate the user fee for emergency transports for seniors have been the driving forces behind the annual increases in call volume. Management also advised that annual out-of-province transports continue to increase as services provided in Nova Scotia and New Brunswick continue to expand. We were advised that the service provider limits the number of ambulances that can be out of the province at a given time due to the strain on the system.

EXHIBIT 3.2
ANNUAL CALL VOLUME STATISTICS
GROUND AMBULANCE SERVICES



Source: HPEI as reported by the service provider

3.8 The service provider is required by law to engage a physician as a medical advisor to its operations. The medical advisor is responsible to provide advice and supervisory guidance to the service provider. In addition, the medical advisor is required to review PCRs to ascertain whether EMT actions were appropriate based on established medical protocols. According to the contract terms, the medical advisor is to report formally on the results of this review to HPEI's Provincial Emergency Medical Director (PEMD), a non-voting member of the Emergency Medical Services Board (the Board).

Government Oversight

3.9 Government oversight is provided through two main entities: the Emergency Medical Services Board and Emergency Health Services at HPEI.

3.10 The Board is accountable to the Minister of Health and Wellness. Its purpose is to regulate the provision of emergency health services in the province. The Board is responsible for monitoring the service provider's compliance with the various legislated standards. It also acts as the regulatory body for the province's EMTs.

3.11 EHS is responsible for managing the day to day service in accordance with the contract terms. The section has 3 staff, none of whom is dedicated full time to the ambulance services portfolio. Management of the contract includes monitoring the service provider's performance against contracted performance standards, approving payments, and dealing with complaints. As part of its oversight responsibility, EHS has regular operational meetings with the service provider.

OBJECTIVE AND SCOPE

3.12 The objectives of our audit were to determine whether Health PEI had processes to

- manage the contract for ground ambulance services; and
- ensure ground ambulance services met the legislative requirements as they pertain to EMT licensure and ambulance inspections.

3.13 The standards against which we measured HPEI's performance came from many sources: the contract terms, the requirements of the pertinent legislation, *Accreditation Canada Standards for Emergency Medical Services*, and industry best practices as identified through literature review and consultation with other provinces. These standards, or criteria, were reviewed with senior management prior to the commencement of the audit. Management accepted the relevance and suitability of the criteria used in the audit.

3.14 The scope of our audit covered the 16 month period from April 1, 2011 to July 31, 2012. Our audit approach included

- interviews with HPEI staff, the PEMD, the Board chair, and senior management from the Department of Health and Wellness;
- detailed examination of contracts, files, reports, and other documentation;
- review of contracted performance standards in some other provinces;
- testing of ambulance inspections;
- testing of EMT license applications; and
- testing of payments made to the service provider.

3.15 Our scope excluded dispatch services which are managed by the service provider through a separate contract. It also excluded air ambulance services which are provided under separate contract with the Province of Nova Scotia.

3.16 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

GOVERNANCE

3.17 The Emergency Medical Services Board is responsible for regulating the provision of emergency health services in PEI. This responsibility includes oversight of ambulance services, EMT licensure, and compliance with ambulance and equipment standards.

3.18 Part II of the *Public Health Act* defines the Board's composition. There are eight voting members and two non-voting members: the Provincial Emergency Medical Director and the Coordinator. These two members are resources to the Board. The voting members of the Board are as follows:

- two from the ambulance operator (ie from the service provider);
- one EMT (in this case, employed by the service provider);
- one from an educational institution involved in the training of EMTs;
- one physician;
- one registered nurse working in the emergency services department;
- one from the public; and
- one from the Department of Health and Wellness.

3.19 The *Public Health Act* has not been updated to reflect the current service delivery model where there is a single service provider. Because of this, three of the eight voting members are employees of the service provider. This situation presents two problems, one from an oversight perspective and one from a board functioning perspective.

3.20 The current Board composition presents a flawed governance structure where almost half the voting members are responsible for overseeing their own employer. In addition, when the Board deals with EMT disciplinary cases, the issues would relate directly to a subordinate or colleague of at least three Board members. Finally, subsequent to the date of our audit report, we were informed that the General Manager of the service provider was voted chair of the Board but the appointment had not been finalized.

3.21 Because these three board members were often excused from a vote due to a conflict of interest, every single other voting board member had to be present for a vote in order to reach quorum. We were advised that this often proved difficult for the Board to achieve. Further, there was a period of four months where the public representative position was vacant.

3.22 When the *Ambulance Services Act* is proclaimed, the Board will continue to be responsible for EMT licensure. We noted that the resulting amendments to the *Public Health Act* do not address the Board composition. As a result, the conflict of interest will continue to exist even after the *Ambulance Services Act* is proclaimed.

Recommendation

3.23 Emergency Health Services should initiate legislative amendments to update the board composition of the Emergency Medical Services Board to reflect the current service delivery model.

PERFORMANCE STANDARDS

3.24 As previously mentioned, the contract for the provision of ground ambulance services is performance based, meaning EHS instructs the service provider *what* it expects, and the service provider decides *how* to operate its business to achieve those expectations. The primary way in which EHS monitors the service provider's performance is through the five performance standards outlined in the contract. Each performance standard outlines

- the standard to be achieved;
- the source of information that will be used to measure performance;
- the method of evaluation;

- the responsibility for monitoring; and
- consequences for non-compliance.

3.25 EHS holds the service provider to standards that fall under the following five topics:

- Chute Time Performance;
- Patient Care Protocol Performance;
- Patient Satisfaction;
- Ambulance Vehicle Maintenance; and
- Data Collection and Reporting.

3.26 These performance standards are important because they form the basis on which EHS measures the service provider's performance. In addition, EHS's assessment of the service provider's compliance with these standards is the contracted mechanism by which the service provider is granted extensions. If EHS deems the service provider to have achieved these standards, the service provider is entitled to annual contract extensions to a maximum of five additional years.

3.27 Given the importance of the contracted performance standards, we looked to see whether EHS had evaluated the service provider's performance against these standards. Further, we looked to see whether these standards were generally in accordance with industry best practices.

3.28 We found that EHS monitored the service provider's performance against most of the performance standards. In some instances, the performance standards were out of date; in other instances, EHS's monitoring was not adequate.

3.29 We reviewed the previous contracts for ground ambulance services dating back as far as EHS could provide. We found that the contracted performance standards are essentially identical to the contracted performance standards that existed at October 1, 2000. At the date of our audit report, these performance standards were 12 years old.

Contracted Performance Standard: Chute Time

3.30 The contracted performance standard for Chute Time is **"Chute Time shall be less than 5 minutes 90 percent of the time for emergency call outs."** Chute Time is defined in the contract as "the time period elapsed from the time the call is received by the ambulance service until the actual time the ambulance vehicle leaves, en route to the scene, staffed with two Emergency Medical Technicians, fully equipped and prepared to respond."

3.31 We found that EHS received monthly reporting on the service provider's chute times that spanned our audit period. These reported chute times show that the service provider has achieved the standard in each of the 16 months in our audit scope. In fact, during that time, the service provider achieved that standard 99 percent of the time. EHS advised that since November 2011, they had been holding the service provider to a two minute chute time standard, but the contracted terms had not been amended to reflect this.

3.32 Management advised that chute times is not a relevant contracted performance measure in today's emergency health services environment. This was echoed by the provinces we consulted as none of the three provinces used chute times as a contracted performance standard. *Accreditation Canada Standards for Emergency Health Services* list chute times as one of several performance measures to be used when identifying successes and opportunities for improvement; however, we were advised that chute times are usually looked at in the context of response times because chute time is a component of overall response times.

Contracted Performance Standard: Patient Care Protocol

3.33 The contracted performance standard for patient care protocol is **"100 percent compliance with patient care protocols."** Patient care protocols are the written procedures that outline the medically appropriate level of pre-hospital care for a given clinical condition. The contract dictates that the service provider's medical advisor is to conduct monthly reviews of patient transports to ascertain whether EMTs complied with patient care protocols. Contract terms state that the medical advisor is to evaluate compliance by examining 30 percent of emergency calls and 10 percent of non-emergency or transfer calls. The medical advisor is to submit the results quarterly to the PEMD by the 10th of the month following the quarter.

3.34 We found that the service provider did submit quarterly reports that included each of the 16 months that spanned our audit. However, we found that HPEI's medical oversight was not as formal or robust as we had expected:

- Initially, we noted that the service provider consistently did not meet the deadlines for submission of the medical audit reports. The PEMD stated that he didn't monitor these timelines; rather, he reviewed the medical audit reports when they were submitted. As a result of our audit work, HPEI staff became aware that HPEI had committed back in 2007 to re-examine these reporting deadlines at the request of the service provider. However, HPEI could not provide us with the information on the outcome of this review. According to the service provider, an extended reporting deadline had been agreed upon but contract terms had not been amended.

- There were instances of noncompliance noted during our audit scope but in all cases, the PEMD advised that he was satisfied with the rationale provided. We noted that the review of the monthly medical audit reports did not include any signature or sign-off by the PEMD indicating that they were reviewed.

- The EHS Board is responsible for medical oversight under Part II of the *Public Health Act*. However, during the scope of our audit, they were not advised of the results of the PEMD's review of medical audit reports.

- In some other jurisdictions, government's medical oversight function includes a systematic review of the service provider's compliance with patient care protocols.

3.35 All other jurisdictions we consulted did use compliance with patient care protocols as a contracted performance standard. We found that the performance standard was therefore a relevant measure.

Recommendation

3.36 Health PEI should strengthen its medical oversight function by

- **being more proactive to request the required medical audit reports;**
- **having a sign-off on the review of medical audit reports;**
- **reporting results of reviews to the Emergency Medical Services Board; and**
- **conducting its own medical audits of the service provider's reported compliance with the patient care protocols using a risk-based approach.**

Contracted Performance Standard: Patient Satisfaction

3.37 The contracted performance standard for patient satisfaction is **"90 percent satisfaction with service provided."** The contract terms outline the method of evaluation. It states that HPEI is to conduct an annual patient satisfaction survey involving contact with 5 percent of patients. We reviewed documentation pertinent to the patient satisfaction survey and interviewed staff at EHS. We found that EHS conducted the required two annual surveys during our scope period; however, we noted the survey questionnaire was not designed to measure satisfaction because of the poor wording chosen for the survey response options. Further, in 2012 patients were only sampled for transports that occurred in a two month period. As a result, the survey process was not adequate to measure performance as intended by the contract.

3.38 One of the provinces we consulted used patient satisfaction as a contracted performance standard using a fairly robust process to survey patients throughout the year and report results publically.

3.39 Complaints processing goes hand in hand with measuring satisfaction. Although not a contracted performance standard, the resolution of complaints is noted by Accreditation Canada as an important part of identifying successes and opportunities for improvement. We expected that EHS would have a process to effectively manage complaints that arose from ground ambulance services.

3.40 We noted that HPEI has a policy entitled *Compliments and Complaints* that lays out policy and procedures for an effective complaints processing system. Among other things, the policy requires an initial response within 72 hours and formal logging of the details of the

complaint and actions taken. We found EHS's complaints management process to be lacking in the structure that is outlined in the policy in that it does not document the details of the complaint and the actions taken. As such, management was not able to ascertain whether the 72 hour requirement had been met nor was there a record of events for future reference. Management advised that the vast majority of the complaints related to billing inquiries.

Recommendations

3.41 Emergency Health Services should review the satisfaction survey approach to ensure it meets the contract requirements.

3.42 Emergency Health Services should strengthen its management of complaints to ensure the process complies with Health PEI's *Compliments and Complaints* policy.

Contracted Performance Standard: Vehicle Maintenance

3.43 The contracted performance standard for vehicle maintenance is **"100 percent compliance with the Ambulance Vehicle Maintenance Program."** The Ambulance Vehicle Maintenance Program referred to is a document that outlines the ambulance maintenance to be performed at various intervals throughout the year. The maintenance program is an appendix to the contract. The contract states that maintenance will be evaluated against this standard by HPEI when conducting its ambulance vehicle inspections. As such, we expected EHS to have processes to ascertain whether required ambulance vehicle maintenance was conducted and to document its conclusions. We examined 16 ambulance vehicle inspections between April 1, 2011 and July 31, 2012 and held interviews with various EHS staff members.

3.44 We were advised that the maintenance program that forms part of the contract is outdated and irrelevant because it schedules routine maintenance based on elapsed time rather than on kilometers travelled, the standard used in the industry. Since the maintenance program was outdated, our expectation of EHS changed slightly. When evaluating the vehicle maintenance, we expected EHS would have looked to another standard or authoritative source such as the service provider's preventative maintenance schedule or the manufacturers' recommendations. We were advised that EHS did not compare the maintenance conducted against a standard. Rather, it focused its review efforts on high kilometer vehicles in an effort to identify long term capital planning needs.

3.45 Ambulance vehicle inspection forms include a section for the inspector to note whether vehicle maintenance was reviewed. Of the 16 ambulance inspections we looked at, seven inspection forms did not indicate that EHS examined the maintenance records and five had no inspection form completed so there was no evidence that anyone from EHS looked at the vehicle maintenance records.

3.46 When consulting other provinces, we noted that all had ambulance maintenance as a contracted performance standard. We found that the performance standard was therefore a relevant measure.

Recommendation

3.47 Emergency Health Services should strengthen its oversight of vehicle maintenance to include

- **comparing the service provider's actual vehicle maintenance to some authoritative source such as the service provider's preventative maintenance program or manufacturers' recommendations; and**
- **documenting the results of the review.**

Contracted Performance Standard: Data Collection and Reporting

3.48 The contracted performance standards for data collection and reporting are:

"(1) 98 percent accuracy and completeness of Patient Call Reports
(2) Submission of Patient Call Report Forms to Coordinator by the 15th of the month
(3) Completed incident report forms submitted to Coordinator within 2 business days of the incident."

3.49 Until February 2012, EHS had part time administrative support and used an electronic system to log Patient Call Report details for oversight and payment verification purposes. We were advised that the administrative support would review PCR details to ensure the accuracy and completeness; however, only in two months did EHS actually calculate an accuracy percentage. Further, when the administrative resources were no longer accessible, EHS did not perform regular reviews of PCRs for accuracy and completeness.

3.50 Regarding the requirement of having PCRs submitted by the 15th of the month, EHS advised that this requirement is outdated and irrelevant. We were advised that subsequent to our audit field work, the service provider scans and submits PCRs electronically throughout the month.

Recommendation

3.51 Emergency Health Services should implement internal control procedures to assess the completeness and accuracy of Patient Call Report data.

3.52 We reviewed the incident reporting between April 1, 2011 and July 31, 2012 and interviewed staff. We noted that EHS does not have a structured framework for incident reporting as evidenced by the following points:

- There is no definition of an "incident" or the circumstances that require an incident report to be submitted. This lack of definition leaves events open to interpretation and presents a risk that EHS would not be informed of pertinent information.

- The incidents that were reported came in to EHS through various formats and through various HPEI contact points.

- EHS did not require the service provider to use the standardized form as required by the contract. Further, the incidents were not logged or tracked making it difficult to report and identify trends.

3.53 We noted that HPEI has a policy entitled *Patient Safety Incident Reporting*. The policy describes the importance of having a structured incident reporting framework, provides relevant definitions, and outlines detailed policy and procedures to follow. Since the contract lacks definition with regards to incident reporting, we expected EHS to consider HPEI's policy as the basis for incident reporting from the service provider. EHS did not use the definitions of the policy to manage the service provider's incident reporting.

3.54 We requested information on incidents reported between April 1, 2011 and July 31, 2012. EHS provided us with 13 reported incidents that were submitted in a variety of formats: some were emails, others were on

various incident report forms. Of the 13 incidents reported, we could ascertain that five were reported within the required two days; three were not reported within the required two days; and five did not have sufficient detail to be able to determine whether the two day standard was met.

3.55 We consulted with other provinces regarding contracted performance standards for data management and reporting. All provinces we consulted required some reporting of incidents and specifics for patient call reports. As such, we found that these performance standards were therefore a relevant measure. We also noted that some of the provinces required regular reporting of financial information. EHS does not require this as part of its contracted performance framework.

Recommendation

3.56 Emergency Health Services should strengthen its incident reporting framework to

- **include a definition of incidents;**
- **streamline the process through the implementation of standardized forms and contacts; and**
- **log and track incidents for analysis and reporting.**

Response Times

3.57 When consulting other provinces, we noted that each used targeted response times as a contracted performance standard, although Ontario has recently done away with blanket response time targets.

3.58 Although response times are not a contracted performance standard, EHS obtained regular reporting on response times and used the information to oversee operations. We were advised that subsequent to our audit work, the service provider has begun to report response times publically on its website.

Recommendation

3.59 Overall, Emergency Health Services should modernize its performance standards for ground ambulance services to reflect a performance management framework that is more in line with industry best practices.

OTHER CONTRACT CLAUSES

3.60 The contract is the key mechanism for monitoring the day to day operations of the service provider. Given the importance of the contract, we reviewed significant contract clauses to ensure that EHS had processes for management and oversight. Initially we focused our efforts on clauses that related to insurance requirements and financial reporting. While conducting our audit, we noted additional clauses that warranted attention.

Insurance

3.61 The contract outlines the insurance requirements of the service provider. Among other things, the contract terms outline the various types of insurance required and the required values of each type of insurance. In addition, it requires the service provider to submit annual certificates of insurance and to name HPEI as an additional insured party on the insurance policies. When assessing EHS's monitoring of insurance, we looked at insurance certificates that spanned our audit period, interviewed EHS staff, and consulted with provincial Risk Management and Insurance staff.

3.62 We found that EHS had copies of insurance certificates that spanned our audit scope. However, the insurance certificates did not name HPEI as an additional insured. If HPEI were involved in legal action, it would not have its legal fees or any financial settlements owed covered by the service provider's insurance.

3.63 The certificates showed that the service provider had the required insurance coverage for general liability insurance and malpractice insurance. However, the amount of automobile insurance was not sufficient. EHS staff produced documentation to support the reduced insurance coverage; however, the contract terms had not been amended to reflect this decision.

Financial Statements

3.64 The contract dictates that annual audited financial statements are to be submitted. We found that EHS obtained copies of the annual statements, but they had not reviewed them. Financial statements provide valuable information that is important for effective government oversight.

Contract Extensions

3.65 An unconventional clause in the contract gives the service provider the option to seek up to five years of extensions even though it is only midway through the initial term of its contract. Contract terms state that the service provider shall have the option to provide a renewal term for an additional period of one year. The contract allows an additional four one

year renewal periods stating "if the service provider consistently exceeds the Performance Criteria in any year of the initial term, it shall have the option to provide a Renewal Term for an additional period of one year for each year in which it exceeds the stipulated Performance Criteria, up to a maximum of five years."

3.66 Subsequent to the date of our audit report, we were advised that EHS would be preparing a Treasury Board submission seeking a one year extension of the contract, and for any future renewal periods, EHS would seek further Treasury Board approval.

Billings for Inter-Facility Transfers

3.67 Treasury Board Policy 13.07 *Elements of a Professional Services Contract* requires a clear statement of the amount and manner of payment, including the requirements of each party to initiate payments. Further, it explains that this is necessary to assist the employee who is responsible to monitor the agreement and authorize payments. We found the contract terms related to billings for inter-facility transfers are not clearly laid out. Management advised that the billing framework for inter-facility transfers is complicated and before they take action to amend the contract terms, they must carry out an exercise to simplify and communicate the billing mechanism to all parties. This point is echoed by the fact that EHS has stated that the vast majority of its public inquiries/complaints relate to billing.

3.68 Finally, we noted some instances of outdated and vague contract wording which have been reported to management under separate cover.

Recommendations

3.69 Emergency Health Services should ensure the service provider names Health PEI as an additional insured under the general liability insurance and malpractice insurance as required by the contract terms.

3.70 Emergency Health Services should amend the contract terms to reflect the actual amount of automobile insurance it requires of the service provider.

3.71 Emergency Health Services should review the annual audited financial statements of the service provider.

3.72 For future contractual arrangements, Emergency Health Services should avoid clauses that grant significant extensions early in the initial term of the contract.

3.73 Pursuant to Treasury Board policy 13.07 - *Elements of a Professional Services Contract*, Emergency Health Services should amend the contract terms to clearly lay out the payment mechanism for inter-facility transfers.

CONTRACT PAYMENTS

3.74 The contract stipulates an annual payment of $3,924,300 per year. The contract terms allow this amount to be adjusted annually for service increases and cost increases. A service increase adjustment would be warranted if the level of service expected by EHS increased beyond the level outlined in the contract. An example of a service increase would be if EHS decided to increase or alter the stipulated performance standards. The contract permits cost increases for specific items including adjustments for inflation, labour rate increases, and fuel price changes.

3.75 In addition to the annual payment, the contract allows for other payments for services rendered beyond those covered under the annual payment. For these payments, the contract states that the service provider must provide an itemized invoice to support the request for payment.

3.76 When conducting our audit, we examined both annual payments and other payments that occurred during our audit scope. We limited our verification procedures to those payments that are administered by EHS. **Exhibit 3.3** shows all payments to the service provider made by HPEI by fiscal year. Enhanced coverage amounts experienced in one year become incorporated into the next year's annual payment adjustment as part of the service adjustment. All reported payments with the exception of inter-facility transfers and some items aggregated under "other" were administered by EHS.

EXHIBIT 3.3
HEALTH PEI PAYMENTS TO THE SERVICE PROVIDER
YEAR ENDED MARCH 31
(Millions)

	2008	2009	2010	2011	2012	Total
Annual Payment:						
Opening Annual Payment	$3.924	$5.109	$5.625	$5.873	$6.363	$26.894
Adjustments	1.185	.516	.248	.490	.418	2.857
Closing Annual Payment	$5.109	$5.625	$5.873	$6.363	$6.781	$29.751
Other Payments:						
Out of Province	$ .428	$ .674	$ .860	$ .736	$ .634	$ 3.332
Seniors	-	-	.309	.753	.553	1.615
Inter-facility Transfers	.529	.302	.299	.321	.251	1.702
Enhanced Coverage	.123	.156	.310	.196	.374	1.159
Other	.063	.065	.245	.395	.155	.923
Total Payments	$6.252	$6.822	$7.896	$8.764	$8.748	$38.482

Source: Health PEI financial records (2010-11 and 2011-12 fiscal years were reconciled to Health PEI audited financial statements).

Annual Payments

3.77 From the inception of the program to the 2012-13 fiscal year, the annual payment has increased by $3.4 million, or 85 percent. Over that time, adjustments to the annual payment have been split approximately 35 percent for service increases and 65 percent for cost increases. Of those cost increases, approximately 90 percent related to labour cost adjustments, which occurred primarily in the first two years due to labour contract settlements. **Exhibit 3.4** summarizes the adjustments to the annual payment amounts from the inception of the contract to fiscal 2012-13.

EXHIBIT 3.4
GROUND AMBULANCE CONTRACT
ANNUAL PAYMENT ADJUSTMENTS TO 2012-13

Cost Increases:		
Labour costs	$1,938,600	
CPI	243,200	
Fuel costs	41,100	$2,222,900
Service Increases:		
Enhanced coverage	1,012,400	
Call volume/mileage	194,700	1,207,100
Total Adjustments to Annual Payment		$3,430,000

Source: Health PEI financial records (audited 2011-12 and 2012-13 fiscal year adjustments)

3.78 Since adjustments to the annual payment amount are cumulative, we looked back to the inception of the contract to ensure the continuity of the amount. We performed detailed tests of the adjustments to the annual payment amount that occurred during the period under audit. When carrying out our work we assessed the appropriateness of the adjustments, whether the adjustments were well supported, and whether the payment was properly authorized based on delegated signing authority levels.

3.79 For payments made under the annual payment provision, we found that amounts were accurate and well supported for both cost increases and service increases. We found that the payments to the service provider were properly authorized based on HPEI's delegation of signing authority policy. However, we noted that the payment thresholds established therein do not comply with Treasury Board Policy 6.07 - *Delegation of Signing Authority* which requires financial transactions in excess of $100,000 be approved at the level of Deputy Head.

Other Payments

3.80 For other payments that EHS made to the service provider during the period under audit, we performed verification procedures to determine whether they were permitted under the contract terms, whether they were well supported, and whether the payment was properly authorized based on delegated signing authority levels. We focused our procedures on out-of-province transports and seniors' transports. We also looked at any significant payments that were of an ad hoc nature.

3.81 For out-of-province and senior transports, we found that the service provider had submitted itemized invoices and/or PCRs for these services. However, when we looked to the contract terms to ensure these types of payments were permitted, we noted that they were not outlined therein. Due to policy changes, HPEI was covering all user fees for Island seniors and Islanders requiring out-of-province transport. As such, we concluded that there had not been a formal amendment to the contract nor any other formal, documented communication between the two parties to outline the changes in billing procedures for these types of transports. As illustrated in **Exhibit 3.3**, these payments have amounted to approximately $5 million.

3.82 For these same payments, we looked to see whether EHS staff properly authorized the invoices for payment. Section 40 of the *Financial Administration Act* requires that a person certify an invoice for payment demonstrating that the amounts were verified and services rendered. We noted that from March 2012 until the end of the period under audit, EHS did not conduct verification procedures on these invoices prior to approving for payment.

3.83 The reason given for this lack of verification was to the fact that in March 2012 EHS no longer had access to administrative support nor to the database system they had been using for verification purposes. Further, PCRs were submitted separately from the invoices and the PCR filing system made it extremely difficult to match up the invoices with the applicable PCRs for verification purposes. The matching and verification process that should have occurred prior to payment approvals was not performed. Without this verification process, there is a risk that EHS could pay for services for which they are not responsible.

3.84 The ad hoc payments we looked at were communicated and agreed upon between the two parties and appropriate sign off on the invoice was obtained.

Recommendations

3.85 Health PEI should follow Treasury Board policy on delegation of signing authorities. Where exceptions are considered necessary, Health PEI should seek approval of Treasury Board.

3.86 Emergency Health Services should amend the contract terms to reflect policy changes that impact payments for services.

3.87 Pursuant to the *Financial Administration Act*, Emergency Health Services should implement internal control procedures to verify invoices for payment.

COMPLIANCE WITH LEGISLATION

3.88 Part II of the *Public Health Act* and the accompanying *Emergency Medical Services Regulations* detail the requirements for EMT licensure and the standards for ambulance vehicles, equipment, and supplies. Under the legislation, the Emergency Medical Services Board is responsible for assessing EMT applications and issuing licenses. The legislation also dictates that the Provincial Coordinator, a resource to the board who works in EHS, is responsible for conducting semi-annual ambulance inspections to ensure compliance with regulated standards regarding ambulance vehicles.

EMT Licenses

3.89 In some provinces, EMTs (or paramedics as they are also known) are a self-regulating profession. In PEI, the Board regulates EMT licensure and licenses are valid for a two year period expiring on March 31st of the two year anniversary. Regulations dictate what is needed for new applications and for renewal applications. The Board has developed internal policies to help guide its regulatory function. In addition to these requirements for licensure, we noted that the contract requires the service provider to only employ EMTs with a valid license and that EHS have on file a copy of all valid licenses.

3.90 When verifying that EHS had valid licenses for all EMTs employed by the service provider, we found two instances where an EMT was working without a valid license. When we reported this information to EHS, we were advised they immediately took action to correct this situation.

3.91 We looked at a sample of 14 new EMT license applications to determine whether there was documentation supporting that the applicant

met the regulated and policy requirements. We looked for documentation supporting the applicant's training, driver's license, and criminal record check. We found no reportable instances of non-compliance.

3.92 We looked at a sample of 16 renewal EMT license applications to determine whether there was documentation supporting that the applicant met the regulated and policy requirements. We looked for documentation supporting the applicant's previous license, relevant training, emergency callout trips, continuing education, and driver's license. We noted some deficiencies with regards to continuing education and emergency callouts. These deficiencies related primarily to the Board's management of the licensure process rather than to the EMT licensees.

3.93 For all but one of the files in our sample, the Board obtained documentation on continuing education prior to issuing the license. In general, when checking for compliance with education requirements, we could not ascertain whether the courses listed by the applicants qualified for the education requirement nor could we confirm whether the total number of hours listed was accurate. The reason for this is two-fold. First, the Board's listing of courses that qualify to meet the requirements of continuing education was out of date and did not reflect all the courses applicants had listed on their application. The Board's listing of permitted continuing education credits had not been updated since 2005. Second, we could not ascertain whether the hours listed on the applications were accurate because the Board did not audit or verify the information.

3.94 We found that there is an overall lack of clarity on what is considered an emergency callout. We were initially advised that an emergency callout would be any call that has been coded an emergency by dispatch. Subsequently, we were advised that any call regardless of dispatch code would meet the requirements. The policy further lacks clarity on whether the transport would meet the requirement if the EMT was the driver on the call. During our sample testing, we noted four renewal applications where the Board could not produce information to support its conclusion on the requirement for 10 emergency callouts.

Recommendations

3.95 Emergency Health Services should implement internal control procedures to monitor the clause in the contract with the service provider requiring all Emergency Medical Technicians employed have a valid license to practice.

3.96 The Emergency Medical Services Board should update its policies to accurately reflect the continuing education requirements that are deemed eligible for licensure.

3.97 The Emergency Medical Services Board should update its policies to clearly outline the emergency callout requirements that are deemed eligible for licensure.

3.98 The Emergency Medical Services Board should validate the listed emergency callouts that applicants claim on their Emergency Medical Technician license applications.

3.99 The Emergency Medical Services Board should conduct random audits of Emergency Medical Technician licensees to ascertain whether the continuing education reported is valid and appropriate.

Ambulance Inspections

3.100 Legislation outlines the requirements for ambulance inspections. Regulations outline the specific requirements of the ambulances, supplies, and equipment. New ambulances are to be inspected prior to entry into service and existing ambulances are to be inspected twice per year. These inspections are to be conducted by the Coordinator.

3.101 In addition to what is required under legislation, the contract with the service provider references these ambulance inspections as the mechanism to verify the service provider's compliance with the vehicle maintenance program.

3.102 We expected the Board to ensure ambulance inspections were documented and completed in accordance with the regulations. Further, we expected that any deficiencies noted would be corrected. We looked at ambulance inspections for 16 existing ambulances and all new ambulances. We also interviewed various staff.

3.103 We found that only five ambulances that were in service during the audit scope period had evidence on file that inspections were completed twice annually. Six had one inspection on file while the remaining five had no inspection on file.

3.104 All three new ambulances had the initial inspection on file and weren't yet due for the second inspection at the time of our audit. Although there was documentation to support that new ambulances were inspected, neither the Board nor EHS had a mechanism to ensure that the inspections were conducted prior to the ambulances being put into service.

3.105 Of the 11 inspection forms on file, we could not ascertain whether follow-up was conducted on deficiencies noted since EHS did not maintain a record of this information.

Recommendations

3.106 The Emergency Medical Services Board should ensure that ambulances are inspected twice annually as required by the *Emergency Medical Services Regulations*.

3.107 The Emergency Medical Services Board should implement internal control procedures to ensure ambulances are inspected prior to entry into service.

3.108 The Emergency Medical Services Board should implement internal control procedures to ensure deficiencies noted during ambulance inspections are followed up in a timely manner.

MANAGEMENT RESPONSE

3.109 Our report was discussed with management and a written response will be provided.

4. SKILLS PEI

MAIN POINTS

What we examined

SkillsPEI is responsible for providing employment assistance programs to unemployed and underemployed Island residents. A division of the Department of Innovation and Advanced Learning, SkillsPEI obtains the majority of its funding through the Canada/Prince Edward Island Labour Market Development Agreement. We looked at whether services delivered by SkillsPEI through three key programs TrainingPEI, EmployPEI, and Self EmployPEI were in compliance with program policies, whether management of contracts with external service providers was in accordance with both program and Treasury Board policies, and whether SkillsPEI had a system to measure and report on its performance.

Audit work for this report was substantially complete as of September 2012.

Why it's important

PEI has one of the highest unemployment rates of any province in Canada. In 2011-12, SkillsPEI had over $36 million in expenditures for employment related programs and services. With the transfer of program responsibility to the province in 2009 under the Labour Market Development Agreement, SkillsPEI initially focused on establishing operations for program delivery. With this significant ongoing investment in training and employment opportunities, it is important that programs are managed to maximize the benefits to Islanders, program policies are complied with and results achieved are measured and reported.

What we found

- SkillsPEI does not have a performance measurement framework to measure and report the results achieved from the various employment and training services offered to the public.

- The organizations providing employment assistance services are essentially the same ones that were contracted when the federal

government had responsibility for service delivery. SkillsPEI has not re-examined the rationale for continuing to contract with these same organizations. Required Treasury Board approval was not obtained for a number of contracts and amendments to contracts.

- Our audit work on TrainingPEI, Self EmployPEI, and EmployPEI programs identified issues of non compliance with program policies and the need to strengthen monitoring to ensure programs are operating as intended. Under various programs, payments were not authorized in accordance with delegated signing authority.

BACKGROUND

4.1 SkillsPEI, a division of the Department of Innovation and Advanced Learning (the Department), provides programs and services to assist individuals to increase their skills, obtain meaningful work experience, and address specific barriers to employment. In addition to services directed to individuals, it also provides services to employers through increasing and improving the skilled labour force, assisting in workplace training, and providing services to address labour force adjustments.

4.2 In 2009, SkillsPEI became responsible for the delivery of a number of programs and services formerly delivered by the Department of Human Resources and Skills Development Canada. These programs are funded primarily through the Labour Market Development Agreement (LMDA) which provides funds for certain recipients, those who are eligible for employment insurance benefits (EI) or have had a recent claim. In addition, SkillsPEI became responsible for the delivery of employment services and assistance provided through the Labour Market Agreement (LMA) to unemployed individuals who are not EI clients and are not EI eligible. The LMA is directed at target groups such as social assistance recipients, youth, aboriginal people, and immigrants as well as employed individuals who are low skilled.

4.3 As part of the transfer and in order to provide continuity of service, the province agreed to honor all agreements with client recipients as well as external service providers. Under these agreements and several smaller federal/provincial agreements, the federal government has provided more than $30 million to Prince Edward Island for employment services in the 2011-12 fiscal year and over $3 million for administration costs. Total expenditures funded under the LMDA were $29.7 million while the expenditures funded under the LMA were $3.4 million. **Exhibit 4.1** shows a breakdown of SkillsPEI 2011-12 expenditures by program area. Not all of these costs were reimbursed by the federal government.

EXHIBIT 4.1
SKILLS PEI
PROGRAM EXPENDITURES 2011-12
(Millions)

Program	Expenditure
TrainingPEI	$15.2
Employment Assistance Services	4.9
EmployPEI	1.8
Self EmployPEI	1.5
Work Experience PEI	2.0
Labour Market Partnership	1.8
LMA Projects & Public Internship Program	1.8
Community Internship	1.2
Work Place Training	.5
Other Provincial Programs	.9
Other Federal Programs	.7
Program Expenditures	**32.3**
Administration Costs	4.4
TOTAL	**$36.7**

Source: SkillsPEI

4.4 SkillsPEI has offices in four communities across the province. In addition, SkillsPEI provides employment and training services through a network of third party service providers, community colleges, and private career colleges.

OBJECTIVE AND SCOPE

4.5 The objectives of this audit were to assess whether

- SkillsPEI has adequate systems, processes, and procedures to measure and report whether programs are meeting objectives;
- services delivered by SkillsPEI through the programs TrainingPEI, EmployPEI, and Self EmployPEI are provided in accordance with program policies; and
- SkillsPEI's management of contracts with external service providers complies with policy requirements and includes processes and procedures to monitor the cost and level of services provided.

4.6 We identified audit criteria which are the standards we used to assess performance. Senior management of SkillsPEI and the Department of Innovation and Advanced Learning reviewed and agreed with the suitability of the criteria used in the audit.

4.7 Our audit focused on three key programs delivered to clients: TrainingPEI, EmployPEI, and Self EmployPEI. We also examined the Employment Assistance Services program which is delivered through contracts with external service providers. We did not audit the apprenticeship training portion of the TrainingPEI program because a separate division, the Post Secondary Division, has primary responsibility for apprenticeship training. In addition, there are other programs of SkillsPEI that were not part of our audit scope including Work Experience PEI, Workplace Training, Public Internship Program, Labour Market Partnership, and Community Internship. Total program expenditures included in the scope of our audit were $22 million or 60 percent of SkillsPEI total expenditures for 2011-12.

4.8 We examined management practices for assessing applications, approving agreements with clients, processing payments under those agreements, and monitoring and reporting of results for each of these programs. We also obtained information on the management and reporting of SkillsPEI's performance information.

4.9 We reviewed processes for contracting with external service providers including compliance with SkillsPEI's program policies as well as applicable Treasury Board policies. Our observations and conclusions relate only to the management practices and actions of SkillsPEI. We did not audit the records of external service providers, and therefore our comments and conclusions do not pertain to the practices or performance of these organizations.

4.10 Our audit included a review of various documents, federal/provincial agreements, program and Treasury Board policies, and numerous reports. We also interviewed various departmental personnel. We selected a sample of client agreements for TrainingPEI, Self EmployPEI and EmployPEI that had financial transactions recorded during the 2011-12 fiscal year. We examined agreements with all external service providers for Employment Assistance Services for the 2011-12 and 2012-13 fiscal years.

4.11 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

PERFORMANCE MEASUREMENT AND REPORTING

4.12 We looked for SkillsPEI, a division of the Department, to have a framework for measuring its performance including

- goals and objectives for SkillsPEI;
- program objectives and targets that link to the overall goals and objectives of SkillsPEI; and
- program measures or indicators that are outcome based.

In addition, we expected SkillsPEI to obtain the necessary information to measure and report on results achieved.

4.13 SkillsPEI has overall goals documented in the Department's 2011-16 business plan. These goals are to improve quality employment outcomes for individuals, to advance the skills of Islanders to meet the demands of a knowledge economy, and to support a globally competitive

economy in PEI. However, we found there are no specific objectives documented for SkillsPEI that flow from these goals. Departmental priority outcomes are identified in the Department's business plan but with the exception of improved labour market information these are not clearly linked to SkillsPEI. We were advised during our audit that an economic development strategy designed to integrate efforts within the Ministry was being developed.

4.14 The programs delivered by SkillsPEI that are funded by the LMDA and the LMA have documented program objectives and targets are established. However, these targets are largely activity based, for example the number of clients to be served.

4.15 The LMDA establishes performance measures such as the number of active claimants who have accessed benefits, the number of EI claimants returned to work, and the savings to the EI account. Data is routinely transferred to Service Canada for performance measurement purposes. We noted that information obtained by the federal government on each province including PEI is reported in a monitoring and assessment report which is tabled in Parliament. While these measures are significant to Canada for accountability, this information is not sufficient for PEI purposes. For example, it does not indicate whether the employment is permanent, full time, or whether it is related to the client's field of study.

4.16 Additional information is needed to assess whether SkillsPEI is successful in assisting clients to obtain long term, meaningful employment. At the time of our audit, there were limitations in the data available to measure performance. A draft *Performance Monitoring Plan* had been developed by SkillsPEI which documented additional data to be collected. If this data was obtained and analyzed it would allow for improved performance reporting.

4.17 The Department of Innovation and Advanced Learning produces an annual report which includes information on SkillsPEI. The information reported refers to the various programs provided by the Division and the number of clients served. However, the report does not provide sufficient information on the results achieved by SkillsPEI.

4.18 SkillsPEI is the lead organization for labour market development in the province with expenditures of over $30 million. There is a need to

more closely align the programs and services funded through the LMA and LMDA with provincial priority areas. After several years of focusing on establishing business operations, SkillsPEI must now devote increased attention to develop performance indicators and measure and report on performance.

Recommendations

4.19 SkillsPEI should establish objectives congruent with its goals. Outcome based performance indicators should be developed that link to these objectives.

4.20 SkillsPEI should obtain information to assess its performance and provide the results in the annual report of the Department of Innovation and Advanced Learning.

SKILLS PEI POLICIES

4.21 Policies lay out a framework for how programs will be delivered. When SkillsPEI was established in 2009, the federal program policies were adopted to allow a seamless transition of services. Since 2009, a number of policy changes have been made that impact program delivery such as the assessment of applications, the amount of funding individuals will receive, and the timing of the funding.

4.22 We expected SkillsPEI to have a well defined process for documenting, tracking, and approving policy changes. We obtained information on policy changes during 2010-11 and 2011-12 for the TrainingPEI, Self-EmployPEI, and EmployPEI programs. SkillsPEI could not provide documented Deputy Minister approval for all significant policy changes during that period. We were advised that where documented approval was not obtained, verbal approval was received from the Deputy Minister. For one significant policy change, Deputy Minister authorization was documented. However, the date of this approved policy change was not consistent with implementation dates in the policy manual documents. We also noted contradictory clauses in the TrainingPEI policies. Where formal authorization is not obtained and changes are not clearly reflected in the policy manual, there is a risk that the nature and timing of policy changes do not reflect the intentions of senior management for the direction of the program.

Recommendation

4.23 SkillsPEI should strengthen its processes for tracking, documenting, and approving policy changes and ensure all significant program policy changes are formally authorized by the Deputy Minister.

CONTRACTED SERVICE PROVIDERS

4.24 There are 11 employment assistance service providers whose role is to provide career counselling and case management to clients and potential clients of SkillsPEI. Most of these organizations offer services which range from providing an employment resource centre for self directed job search, to carrying out a needs assessment and developing a return to work action plan (RTWAP), to monitoring and maintaining data on completion of the RTWAP. In 2011-12, SkillsPEI provided $4.9 million to these external service providers.

4.25 Two of these organizations provide services to the general public, and one of the two receives approximately fifty percent of the total funding and has offices across the Island. We expected SkillsPEI to follow a competitive process when contracting employment assistance services to be provided to the general public.

4.26 For the major service provider, the contract entered into with the federal government and assigned to SkillsPEI in 2009 was based on a competitive process. When this contract expired in September 2011, SkillsPEI negotiated a new contract from September 2011 to September 2012 without a competitive process. This contract was subsequently extended to March 2013.

4.27 The nine other organizations each provide services to a particular group of individuals with similar characteristics, for example the PEI Association of Newcomers to Canada. The employment services provided are just one type of service these organizations provide for their clients. We expected SkillsPEI to have criteria or a rationale for contracting with these specific organizations.

4.28 We noted that the external service providers in 2011-12 were the same organizations that were providing the services when the federal government was responsible for these contracts. Under the LMDA, these contracts were assigned to the province in 2009. When these contracts

expired in September 2011, SkillsPEI negotiated an extension to March 31, 2012, and new contracts were entered into with each of these organizations for the 2012-13 fiscal year.

4.29 SkillsPEI does not have a documented rationale for selecting organizations to provide employment and case management services on its behalf. These organizations are focused on clients of a particular demographic or geographic area and the funding received through these contracts is an important source of revenue. Criteria have not been developed as a basis to assess eligible service providers in relation to where available funds would be best used to address the priorities of SkillsPEI. There are many factors to consider, such as whether the demand warrants continued funding for services in certain locations, whether there are gaps in accessibility of the services, and whether the service provider is able to demonstrate successful, efficient service delivery.

Recommendations

4.30 SkillsPEI should use a competitive process to contract for employment assistance services that are provided to the general population.

4.31 SkillsPEI should develop criteria for selecting organizations to deliver employment assistance services to specific client groups.

Agreement Approvals

4.32 We examined contracts for each service provider during the 2011-12 and 2012-13 fiscal years. We expected contracts with service providers to be approved in accordance with Treasury Board policy.

4.33 Treasury Board policy requires that all contracts and agreements in which the contract value exceeds $100,000 to be approved by Treasury Board. In addition, amendments to contracts or agreements which increase the contract value in excess of 10 percent and for which the revised contract value is in excess of $100,000 must be approved by Treasury Board. We found there were 20 agreements and amendments to agreements approved within our audit scope period which did not have Treasury Board approval as required by policy. Management of SkillsPEI indicated that the issue of Treasury Board approval for contracts was discussed with Treasury Board staff. However, documented approval from Treasury Board to exempt these contracts was not obtained.

Recommendation

4.34 Where required by Treasury Board policy, SkillsPEI should seek Treasury Board approval to enter into contractual arrangements.

Monitoring of Results

4.35 We examined the level of funding provided under the contracts with service providers and reviewed the process to determine the approved amounts. We expected the contract amounts to be based on estimates of eligible costs and linked to performance expectations. There is a process for each service provider to develop and submit a detailed budget based on a template of eligible costs. This information is reviewed, discussed with the service provider, and revised where necessary before a recommendation for approval is provided to senior management.

4.36 Each service provider is required to commit to various targets as part of its contract and must report results against these targets. Based on self reporting by the service providers, we compared the results reported to the targets agreed to in the funding contract. We found variations in how organizations were reporting; some were not reporting on all targets and in some cases the results covered a different time period than outlined in the agreement. We also noted that a comparison of results against targets was not consistently documented by SkillsPEI at the conclusion of each contract. This information is important for holding the organization accountable. Where results are not meeting targets, SkillsPEI must consider various factors and their impact on results, for example, whether the targets established were reasonable, whether there is a lack of awareness of the programs or organization, or other factors such as a cyclical or permanent decline in the demand for service.

4.37 Contracts with external service providers require annual financial statements be provided upon the request of SkillsPEI. We noted that financial statements were not typically requested and reviewed by the program officers. In some cases the cost for a financial audit is included as part of the funding agreement. The funding provided through SkillsPEI can be significant, and in some cases, a major source of funding for these organizations. Examination of financial statements, particularly for larger service providers, is important and would assist in providing assurance that the funding provided by SkillsPEI was used in accordance with the agreement.

Recommendations

4.38 For funding agreements with external service providers, SkillsPEI should monitor results against targets and where necessary follow up and document any resulting action required.

4.39 SkillsPEI should obtain and review annual financial statements of contracted service providers.

Contract Terms

4.40 Treasury Board policy outlines what is to be included in a contractual arrangement. In its simplest form these agreements are to document the services that are to be performed and the terms and conditions attached to the funding that will be provided.

4.41 As previously stated, the contractual agreements under the federal government were assigned to the province in 2009 under the LMDA. Since that time, these original agreements were amended and extended. Where new agreements were entered into with the Department of Innovation and Advanced Learning, we reviewed the clauses contained in the agreement to determine if they were consistent with the requirements of Treasury Board policy. We found that the standard wording in the new agreements met many of the requirements under the policy; however, the contract wording was not adequate for payment procedures.

4.42 In practice, advances were made to fund the organizations and monthly claims were required including documentation to support the amount of actual expenditures incurred. Based on these claims, adjustments were made to the next month's advance. We found that the contracts did not indicate that a monthly claim was required to support actual expenditures.

4.43 For each of the service providers, we examined a claim and reviewed the procedures carried out by the program officer to assess the claim. We found a wide variation in the extent of supporting documentation required by program officers ranging from support for all payments to a summary listing of expenditures. Some program officers indicated they were unsure as to what documentation they were expected to obtain from the service providers to support each claim.

Recommendations

4.44 SkillsPEI should revise the contract terms to reflect the requirement for the service provider to submit periodic claims to support actual expenditures for the period.

4.45 SkillsPEI should develop and document procedures to guide the work of program officers in validation of claims.

TRAINING PEI

4.46 The TrainingPEI program provides eligible individuals with full time skills training at accepted training institutions. The training is intended to provide the individual with skills to obtain permanent, full-time, meaningful employment. Eligible participants can receive funding under the program for a portion of the tuition as well as other incremental costs such as dependent care, disability costs, transportation, and costs for living away from home. Employment insurance participants continue to receive EI benefits while in training, and in some cases they may also receive a basic living allowance (BLA). For the 2011-12 year, there were over 1600 agreements that provided funding to individuals including both skills development and adult basic education.

Application Process

4.47 To participate in the program, individuals must meet the criteria established under the LMDA or the LMA. The LMDA provides funding to the majority of participants and requires they be an insured participant under the federal *Employment Insurance Act*. The LMA provides funding for unemployed individuals who are part of an identified priority group or a low skilled employed individual.

4.48 The first step to determine whether an individual is eligible to participate in the program is the completion of a needs assessment. The needs assessment is conducted in conjunction with an external service provider. The needs assessment establishes eligibility and documents the individual's employment needs. A Return to Work Action Plan (RTWAP) is developed which identifies the participant's barriers to employment and establishes a strategy to overcome the barriers so that meaningful employment can be obtained.

4.49 When an application is approved by SkillsPEI, the participant enters into an agreement which outlines the financial support the participant will receive and the participant's responsibilities, such as

providing a personal contribution for tuition and notifying SkillsPEI of any changes in circumstances. Based on a review of a sample of TrainingPEI agreements, we found that applications for funding were assessed against eligibility requirements and funding agreements were appropriately approved. All clients in our sample signed the funding agreements acknowledging the terms and conditions of the funding. However, we noted issues with the calculation of the funding and the monitoring of client agreements.

Calculation of Financial Support

4.50 TrainingPEI participants may be eligible to receive a BLA during their training period. The purpose of this allowance is to help the individual cover his or her basic living costs such as food, clothing, shelter and utilities. Program policy changes affecting the calculation of BLA were made during the period under audit. Of our 56 sample items, 27 received BLA at some time during their training. Of the 27, 21 were subject to policy requiring the calculation of BLA based on a determination of financial need less gross family income. We found that for 14 of these 21 sample items, a net family income calculation was used rather than gross family income as required by policy which resulted in overpayments totaling $21,000. Program policy was revised in 2011 making BLA a flat rate grant. Consequently, these calculation issues will not impact future client agreements.

Recommendation

4.51 SkillsPEI should ensure that payments under the TrainingPEI program are made in accordance with terms and conditions established in policy.

Client Contribution to Training

4.52 TrainingPEI policy requires each client to make a 30 percent contribution to training costs which is considered an expression of commitment to training and successful completion of the RTWAP. There are some exceptions such as participants who are social assistance clients and participants receiving adult basic education.

4.53 Most educational institutions require tuition to be paid in two installments during the program term. Program policy requires that the program officer obtain proof of the client's contribution, or payment arrangements that have been approved by the educational institution, before the second installment of tuition is paid on behalf of the client. This proof is to be documented in the file. We found that in 11 of 41 sample items where a client contribution was required, there was no proof in the file that the client's contribution had been paid.

Recommendation

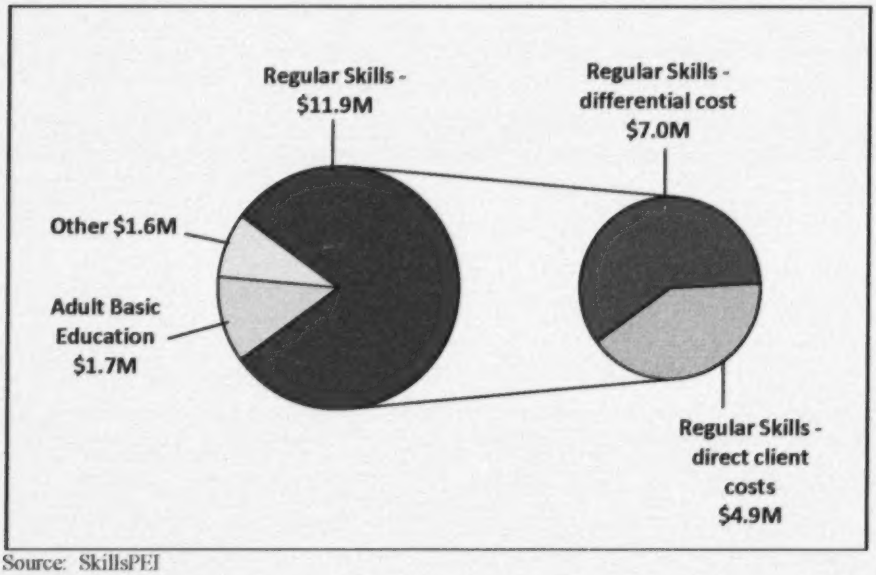
4.54 SkillsPEI should verify that clients have made the required contribution to their training costs as required by policy.

Differential Costs

4.55 The total costs paid by SkillsPEI for the TrainingPEI program amounted to $15.2 million in 2011-12. Of this amount, $11.9 million was for regular skills training which does not include adult basic education or apprenticeship training. For clients that receive regular skills training, the direct client costs, including tuition, are paid as outlined in a client funding agreement. For clients who attend provincial educational institutions such as Holland College, an additional amount of funding is provided to the educational institution to cover the full cost of providing the training. This additional or differential funding was also provided when these programs were delivered by the federal government.

4.56 For training funded through the LMDA, the provincial educational institution bills SkillsPEI for the differential costs not covered by tuition. **Exhibit 4.2** illustrates the breakdown of these expenditures.

EXHIBIT 4.2
TRAINING PEI
PROGRAM EXPENDITURES 2011-12


Regular Skills - $11.9M
Regular Skills - differential cost $7.0M
Other $1.6M
Adult Basic Education $1.7M
Regular Skills - direct client costs $4.9M

Source: SkillsPEI

4.57 We expected the amount paid for these differential costs would be based on the number of approved TrainingPEI students and an agreed price per program supported with a detailed breakdown of costs. We noted that SkillsPEI established a maximum limit for the total differential amount to be paid in 2011-12. The educational institutions were required to provide a billing amount for each type of study program and a listing of approved TrainingPEI students in each program to support this maximum amount.

4.58 We noted amounts billed for each study program were not supported with detailed program costs, and SkillsPEI could not determine if the amounts billed were reasonable. Further, we were advised that additional adjustments to the original maximum differential were negotiated with one provincial educational institution. SkillsPEI management is responsible to obtain maximum benefit for their clients from the training funding available and should obtain sufficient documentation to support the amount of funding provided through differential payments.

Recommendation

4.59 SkillsPEI should obtain sufficient information to support payments to provincial educational institutions for differential funding.

Monitoring Activities

4.60 TrainingPEI program policy requires monitoring of agreements by the external case managers as well as the SkillsPEI program officers. Monitoring helps to identify any issues arising with the client's training program and helps ensure that the funds received by the participants are used in accordance with the agreement. Evidence of all monitoring is to be documented in the client's file.

4.61 Initial and interim monitoring is to be completed on each TrainingPEI agreement by the client's case manager. The case managers are required to notify the SkillsPEI program officers if issues are identified that could impact the participant's training. We noted that in 93 percent of the TrainingPEI files we reviewed there was no evidence in either the paper file or the shared information system of initial or interim monitoring being completed. Without this evidence, SkillsPEI is unable to determine if case managers are properly monitoring clients to identify potential issues and improve the opportunities for the client's success.

4.62 TrainingPEI policy requires that final monitoring be completed by the SkillsPEI program officer. For our sample items where final monitoring was required, 79 percent did not have evidence of final monitoring of the agreement. We noted that SkillsPEI received exit reports from the educational institutions regarding each participant. This report is important, but it is not sufficient because, for example, if a client was not successful or only partially successful, it would not provide information on contributing factors that may warrant consideration in future program changes. In addition, we noted the exit reports were not input into the information system.

Recommendations

4.63 SkillsPEI should obtain documentation to support that initial and interim monitoring of TrainingPEI agreements has been completed by case managers as required by policy.

4.64 In accordance with policy, SkillsPEI should complete the final monitoring on TrainingPEI agreements.

SELF EMPLOY PEI

4.65 The Self EmployPEI program is designed to assist eligible individuals to create employment for themselves by establishing a business. Assistance includes entrepreneurial training and customized coaching, as well as financial support for up to 52 weeks during the development and initial implementation of a business plan.

4.66 Consistent with other SkillsPEI programs, individuals must meet the criteria as established under the LMDA or LMA. To be eligible, the business must be a new business or an existing business in which the client had no prior ownership.

4.67 Clients receive financial assistance to cover personal living expenses while developing the business plan and establishing the business. The amount provided is a weekly flat rate grant. Other incremental costs may also be provided such as dependent care and disability needs. In 2011-12, SkillsPEI provided $1.2 million to over 200 individuals under the self employment program.

4.68 We selected a sample of client agreements and reviewed the files for evidence that the applications had been assessed against the eligibility requirements of the program, the applications included required documentation, agreements were appropriately approved, and monitoring was carried out in accordance with program policies. For our sample items, eligibility was established and all funding agreements were approved. However, we did note issues regarding accountability arrangements with self employment coordinators and monitoring of client agreements.

Self Employment Coordinators

4.69 SkillsPEI uses the services of four self employment coordinators (SECs) across the province. In accordance with program policy, these self employment coordinators are to provide consultative expertise in order to assist eligible clients with the development and implementation of their business plans. The SEC is required to provide key services including an assessment of the individual's suitability for self employment, preliminary assessment of the business concept, assessment of the business plan including a letter of support to SkillsPEI, communication with SkillsPEI, and ongoing monitoring of the individual's progress throughout the implementation of the business plan.

4.70 SkillsPEI engaged three community based organizations to act as self employment coordinators as well as an individual employed by Innovation PEI. Agreements with these SECs were in place prior to the transfer of programs from the federal government. When SkillsPEI was established in 2009, the contract with Innovation PEI was discontinued as this service provider is within the same ministry. The services have continued but there is no documentation of expectations and accountability requirements for this service arrangement.

4.71 For the SECs where documented agreements were signed, activity reports were to be provided to SkillsPEI as a basis to monitor actual performance against the expected results outlined in the agreement. Although monthly activity reports were submitted by each SEC, not all SECs provided the information required by the agreement. Without this information from all SECs, SkillsPEI cannot consistently assess actual performance against the agreement expectations.

Recommendations

4.72 SkillsPEI should document the expectations and accountability requirements for the self employment coordinator services provided to SkillsPEI by Innovation PEI.

4.73 SkillsPEI should ensure all self employment coordinators report activities and results as required in their signed agreements. Significant variations should be followed up by SkillsPEI on a timely basis.

Monitoring Activities

4.74 SkillsPEI Program policies require that the self employment coordinator monitor the individual's progress throughout the development and implementation of the business including reviewing monthly business reports, conducting onsite visits, and notifying SkillsPEI of any change in the client's situation that could affect his or her participation in the program. Monitoring is important to ensure that any issues are identified early to improve the likelihood of the success of the business. It is also important to ensure that the client is carrying out his or her responsibilities under the agreement.

4.75 We reviewed a sample of projects that received funding in 2011-12. We found limited documentation in the files maintained by SkillsPEI to support that the self employment coordinators or the program officers were carrying out the monitoring and support of self employment clients as required by policy. In fact, there were two clients out of 27 files examined where documentation in the file indicated the client was having difficulty maintaining contact with the self employment coordinator. In one of these, the client stated she had not seen or heard from the self employment coordinator the entire period from approval of the business plan to completion of the agreement.

Recommendation

4.76 SkillsPEI should obtain information to ensure that monitoring required by policy is completed by the self employment coordinators.

EMPLOY PEI

4.77 The EmployPEI program is designed to encourage employers to hire eligible individuals and provide on-the-job work experience to enhance their skills and employability. It is a wage subsidy program, typically at 50 percent, for a period of up to one year, which is intended to lead to a permanent position with the employer. In 2011-12, SkillsPEI provided $1.8 million in assistance through over 300 agreements with organizations.

4.78 Consistent with other SkillsPEI programs, eligible individuals must have a current or a recent claim for EI, be part of an identified priority group, or be a low skilled employed worker. In all cases, clients must have a RTWAP that recommends work experience as one way to address the individual's barriers to employment. The employer is responsible to

provide supervision and activity plans to assist and train the individual in the position.

4.79 We selected a sample of EmployPEI agreements that received funding during 2011-12. We assessed whether the employer and employees met eligibility requirements, agreements were appropriately approved, and applicants formally accepted the conditions of the program before funds were disbursed. We found that documentation was on file to support that all clients in our sample met the eligibility requirements. All clients had a RTWAP that supported EmployPEI as an appropriate program to assist the client in their employment needs. All agreements in our sample were signed before funds were disbursed.

Monitoring Activities

4.80 Monitoring of EmployPEI agreements is important to ensure that the client is receiving the on-the-job training as intended under the program. It is also important to identify any issues with the client's commitment to the program so these can be addressed to improve the probability of success. We expected the agreements to be monitored at a minimum as required by policy which is one initial monitor, one interim monitor and a final monitor. We noted that 53 percent of the sample files had no evidence of an initial monitor, and 37 percent had no evidence of an interim monitor. We found that all agreements in our sample had final monitoring completed, but for 17 of 30 files the final monitoring was carried out after the final payment was released which did not comply with policy.

Recommendations

4.81 SkillsPEI should ensure initial and interim monitoring required by EmployPEI program policy is carried out and documented in the files.

4.82 As required by policy, SkillsPEI should complete final monitoring of EmployPEI agreements prior to release of final payments.

PAYMENT PROCESSING

4.83 In accordance with Treasury Board policy, all payments over $100,000 must be approved by the Deputy Minister and payments below that amount must be approved in accordance with signing authority delegated by the Deputy Minister. We reviewed payments for a sample of files to determine whether they were made in accordance with the terms and conditions of the approved agreement and whether they were appropriately authorized. Authorization to enter into the agreement allows SkillsPEI to commit funds to that approved agreement. Approval of the payment is required to ensure the amounts are calculated correctly and in accordance with the terms and conditions of the agreement.

4.84 For the TrainingPEI program, the payments consist of both tuition fees which are typically paid directly to the educational institution and regular biweekly assistance to the client. Payments under the Self EmployPEI program include regular biweekly assistance provided to the client. For both of these programs, after the schedule of payments is input in the computerized system the payments are automatically released. We expected the initial approval for release of the first electronic payment would be approved by someone with appropriate signing authority. We found that although there is a process for documentation of the payment schedule by the program officer and review by a compliance officer, neither of these positions had been delegated signing authority for payments.

4.85 Payments under the EmployPEI program and payments to contracted service providers are based on claims submitted with supporting documentation. SkillsPEI has a process whereby the program officer examines the claim and supporting documentation and approves the payment which is then reviewed by the compliance officer. Again, neither of these positions had been delegated signing authority for payments in accordance with Treasury Board policy.

4.86 Treasury Board policy requires that payments over $100,000 be approved by the Deputy Minister. There were three payments within our samples that exceeded $100,000 and Deputy Minister approval was not obtained.

Recommendation

4.87 In accordance with Treasury Board policy, payments made by SkillsPEI should be appropriately authorized.

MANAGEMENT RESPONSE

4.88 Our report was discussed with senior management of the Department of Innovation and Advanced Learning and a written response will be provided.

5. PROVINCIAL NOMINEE PROGRAM: FOLLOW-UP ON THE USE OF PROCEEDS AGREEMENT

MAIN POINTS

What we examined

In 2009, our office conducted a value-for-money audit of Island Investment Development Inc.'s (IIDI) management of the Provincial Nominee Program (PNP). In that audit report, we made a recommendation that IIDI implement a strategy to follow up with businesses that received investment funds under the Program and report the results in its Annual Reports. In our 2013 audit report, we are reporting the results of our follow-up audit to that specific recommendation.

We looked at IIDI's overall strategy for following up with businesses whose principal shareholder signed a *Use of Proceeds Agreement*. We examined a sample of files to ascertain whether IIDI conducted its analyses in accordance with its strategy, whether the reviews were well documented, and whether the conclusions were well supported. Finally, we looked to see that IIDI accurately published details of its follow-up activities in its Annual Reports.

Audit work for this report was substantially complete as of January 14, 2013.

Why it's important

The implementation of the *Use of Proceeds Agreement* was an important part of the accountability framework of the Provincial Nominee Program. Businesses whose shareholder(s) signed the *Use of Proceeds Agreement* promised to use the proceeds as intended within a two year period or be subject to a penalty. Given the impact of the Program, it was important for IIDI to follow up with businesses and to publically report the results.

What we found

- IIDI has taken a long time to complete its follow-up. At December 31 2012, over four years after the Program ended, IIDI still had 12 unresolved file reviews. This marks two years after the anniversary by which businesses had to use their investment funds as outlined in the *Use of Proceeds Agreement*.

- IIDI's policy on what constituted "acceptable use of funds" was very broad. It resulted in only businesses that did not respond or businesses where there were inappropriate shareholder drawings being considered for recommendation to IIDI's Board of Directors as non-compliant.

- At December 31, 2012, the Board of Directors of IIDI had not formally deemed any business non-compliant. We were advised that management of IIDI would recommend to the Board that the four businesses that did not respond be found non-compliant. Further, of the twelve work-in-progress files, there likely would be three to four additional files brought to the Board with the recommendation that they be deemed non-compliant.

- IIDI had not published an Annual Report since 2009-10. As such, it had not publically reported any of its follow-up activities since that time.

BACKGROUND

5.1 In 2001, PEI entered into the *Federal Provincial Cooperation Agreement on Immigration*. The purpose of the agreement was to develop a partnership between the federal and provincial governments on recruitment, selection, admission, settlement, and integration of immigrants to Prince Edward Island. Under the terms of that agreement, the province established the Provincial Nominee Program (PNP), of which the Immigrant Partner Category was the most popular. This category was the focus of our office's 2009 value-for-money audit.

5.2 The program details were created and approved by Executive Council in 2002. Under the Immigrant Partner Category, an immigrant made a $200,000 preferred share investment in an eligible Island business. Each preferred share investment is referred to as a unit under the Program.

5.3 As the Program evolved, IIDI implemented a variety of policies to help guide its management of the Program. Beginning in October 2007, IIDI implemented a policy whereby businesses that received investment funds under PNP were to have shareholders sign a formal contract, the *Use of Proceeds Agreement,* agreeing to use the proceeds in accordance with the conditions of approval or be subject to a fine of up to $55,000 per investment unit received.

5.4 The use of proceeds policy and the wording of the actual agreement evolved over time. Initially, the *Use of Proceeds Agreement* did not have to apply to every investment unit a shareholder received, and the wording of the Agreement was usually very specific to the business' application. At August 1, 2008, every investment unit was subject to a signed *Use of Proceeds Agreement*, and by that time, the wording of the agreement was typically generic in the description of acceptable uses of funds. The typical wording of the standardized *Use of Proceeds Agreement* was as follows:

> Investee Corporation X, an eligible investee corporation under the PEI PNP, and Shareholder X hereby agree and undertake that the net investment funds received....will be used in accordance with the Business Plan submitted... In particular, the Investee Corporation agrees to utilize the net investment funds for the following:
>
> a) expansion of the business as described in the application for eligibility; and
> b) to repay short or long term debt (excluding shareholder debt); and
> c) to increase working capital excluding payment or distribution to shareholders by way of wages, dividends, or distribution of any kind. ("Conditions of Approval").

5.5 Further, the *Use of Proceeds Agreement* wording required the net investment proceeds to be used within two years of being received. If not, the investee corporation and principal shareholders agreed to pay IIDI, on demand, a penalty of up to $55,000 for each investment unit received.

5.6 In 2009, our office conducted a value-for-money audit of Island Investment Development Inc.'s management of the Immigrant Partner Category of the Provincial Nominee Program. In that audit report, we made a recommendation that "IIDI should develop a strategy to follow up on businesses which received units under the Program. IIDI should

provide information in its Annual Report on the results of these follow-up procedures."

5.7 Of the 1,354 businesses that received investment units under the Program, IIDI identified 878 where the shareholder signed a *Use of Proceeds Agreement*. In response to our 2009 recommendation, IIDI chose to follow up with a sample of those businesses. IIDI engaged an accounting firm to select a sample. In total, IIDI sampled 158 businesses whose shareholders signed a *Use of Proceeds Agreement*. In the initial contact letter, IIDI requested financial statements and a written narrative on the use of funds and advised that additional information may be requested at a later date.

5.8 For the vast majority of the businesses that received PNP investment units, the end of 2010 would have marked the two year anniversary of the requirement to use the funds in compliance with the terms of the agreement. In the fall of 2010, IIDI began the process of contacting the businesses. By December 2011, it had received 78 responses but had not conducted any in depth reviews. By December 2012, it had formally reviewed the responses of 142 of the 158 contacted businesses. At that date, there were four businesses that did not respond and 12 where IIDI had not completed its review.

OBJECTIVE AND SCOPE

5.9 The objective of our audit was to determine

- whether IIDI's follow-up strategy was designed and implemented in a way to ascertain whether PNP funds were used in material compliance with the conditions of approval; and
- whether IIDI accurately reported the results of its follow-up strategy in its Annual Report.

5.10 We identified audit criteria which are the standards we used to assess performance. Senior management of IIDI reviewed and accepted the relevance and suitability of the criteria used in the audit.

5.11 We did not audit the businesses, nor did we have contact with the businesses or shareholders. The scope of our audit work covered IIDI's follow-up activities to December 2012. IIDI's review included obtaining

information necessary to form conclusions on compliance with the *Use of Proceeds Agreement* and did not constitute an audit.

5.12 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

IIDI FOLLOW-UP STRATEGY: DESIGN

5.13 IIDI made two key decisions that guided its follow-up strategy. One decision was to use a statistical sample to follow up with businesses rather than to follow up with each business whose shareholder signed a *Use of Proceeds Agreement*. The second key decision was its determination of what would constitute "acceptable use of funds." In each case, these decisions were approved by IIDI's Board of Directors (the Board).

Sample Selection

5.14 IIDI's database could not report on which investment units had an applicable signed *Use of Proceeds Agreement*. As such, staff undertook a manual exercise of reviewing individual files to establish a population of businesses whose shareholders signed a *Use of Proceeds Agreement*. IIDI determined that 878 businesses had on file at least one signed agreement. We interviewed staff and conducted a variety of audit procedures and determined that the population of 878 was materially accurate and complete.

5.15 IIDI started to contact individual businesses and later decided to engage an accounting firm to select a sample of businesses. The accounting firm proposed to generate a sample that would allow IIDI to estimate the number of non-compliant businesses in the population with a confidence level of 90 percent and a margin of error of plus or minus 10 percent. We found that the sampling strategy used was appropriate for IIDI's follow-up process.

5.16 When the sampling strategy was determined, IIDI provided the accounting firm with an electronic list of the 878 businesses that it had determined to be the population of businesses that had signed a *Use of Proceeds Agreement*. This listing included only the PNP assigned

business numbers and did not include information that could identify the business or shareholder names.

5.17 The accounting firm determined that the appropriate sample size was 149 businesses. It then generated a random sample of 149 businesses for follow-up. At that point, IIDI had a sample of 156 businesses including the businesses it had previously contacted. There were other businesses that volunteered information, and at the end of the process, IIDI's sample had grown to 158 businesses.

Acceptable Use of Funds

5.18 When IIDI began its review of responses, it encountered many challenges in ascertaining whether the business used the funds in compliance with the *Use of Proceeds Agreement*. The two major challenges as described by IIDI are outlined in the following paragraphs:

- As previously indicated, the wording of the *Use of Proceeds Agreement* varied from wording that was very specific to the individual business application to the generic wording, depending on when the agreement was signed. IIDI determined that it was not fair to hold some businesses to a restricted use of funds simply because its shareholders had signed the agreement earlier in the Program's development, especially given the recent downturn in the economy.

- It was extremely difficult to trace the PNP investment proceeds through the business based on the financial statements. First, it was almost impossible to "tag" the PNP investment proceeds among all the other sources of cash such as cash from operations, proceeds of debt, or injection of shareholder funds. Second, financial statements show a snapshot at a given point in time at the company's fiscal year-end and, as such, do not detail all the activities that took place during the year. Finally, the company's fiscal year-end would not coincide with the anniversary of the business' receipt of investment funds, and as such there was a timing issue to consider.

5.19 The first step IIDI took to deal with these challenges was to define a standardized "acceptable use of funds" to apply to the businesses rather than hold each one to the specific wording of its individual *Use of Proceeds Agreement*. At that point, IIDI drafted a definition and sought a legal opinion on the appropriateness of the wording. The resulting

standard definition of the "acceptable use of funds" that IIDI used to assess the compliance of the businesses was as follows:

> Acceptable use of funds includes, any use previously approved and any of the following use of funds:
>
> - Investment into capital assets used for business operations;
> - Repayment of long term debt (not including shareholder loans); and
> - Increasing working capital (including keeping working capital at the same, or a justified lower level, when losses are incurred which are not created solely by an increase of non-arm's length salaries).
>
> Any repayment of shareholder loans or unreasonable payment of dividends or wages to shareholders would be considered unacceptable uses of the funds.

5.20 Based on that definition, a business could have used the PNP proceeds for the specific purposes as outlined in its *Use of Proceeds Agreement* or it could have used the funds in accordance with this general definition and be deemed compliant based on IIDI's assessment.

5.21 This broad definition resulted in

- instances where the business was deemed compliant even though it did not meet the specific terms of its individual *Use of Proceeds Agreement*;
- instances where the business was deemed compliant even though PNP proceeds were unspent (included in cash or investments) at the end of the two year threshold; and
- instances where the business was deemed compliant only when operating losses were included in the acceptable use of funds calculation.

5.22 Based on its chosen strategy, IIDI was satisfied that as long as the business used the proceeds within the operations of the business, it was compliant with the *Use of Proceeds Agreement* requirements. Only those businesses that did not respond or those that had inappropriate shareholder drawings were poised to be deemed non-compliant.

IIDI FOLLOW-UP STRATEGY: IMPLEMENTATION

5.23 In the fall of 2010, IIDI initiated the follow-up contact with the sample of businesses. In the initial correspondence, IIDI requested financial statements and a written narrative describing how the PNP funds had been used. IIDI found that businesses were not responding in a timely fashion and often had to send out additional requests. IIDI received financial statements, and in some cases, income tax returns from businesses.

5.24 We found that at December 31, 2012, IIDI had documented its review of 142 responses of the 158 contacted businesses. IIDI could not review four sample items because the shareholders did not respond. IIDI was in various stages of review for the remaining 12 businesses in its sample.

5.25 We examined a total of 58 files that IIDI reviewed. We looked to see whether IIDI accurately applied its follow-up strategy in assessing the responses. In addition, we looked to see that IIDI had documentation on file to support its conclusions and documented approval signatures for every conclusion.

5.26 Based on our sample, we noted that IIDI created tabbed files with standardized information and checklists. In addition, each file included a standardized cash flow model which IIDI used to assist in its analysis. The cash flow model was used to capture the business' financial data, calculate the business' acceptable use of funds, and analyze the annual changes in wages as a percentage of revenue. Where IIDI deemed it necessary, it sought additional information from businesses to form its conclusions. Each file was reviewed and signed off by the Operations Manager and the Director. IIDI's conclusions on the business' compliance were clearly stated.

5.27 In general, we found that IIDI applied its follow-up strategy to the sample files we reviewed. However, we noted two issues.

- For two sample items, IIDI did not seek out sufficient information on shareholder wages prior to forming its conclusion on compliance. In one of these, IIDI obtained further information after we brought it to their attention.

- IIDI brought three specific instances to the Board where the proceeds were not used by the company but were transferred to a related company or its parent company. The Board directed management to ascertain whether the related or parent company used the funds in accordance with the definition of acceptable use of funds. In each of these three cases, the sampled business was deemed compliant even though the parent or related company would not have been eligible to receive proceeds under the Program.

5.28 By December 31, 2012, IIDI had not officially deemed any business to be non-compliant and, as such, had not yet imposed any fines. We were advised that IIDI management will recommend to the Board that the four businesses that did not respond be deemed non-compliant. IIDI management further advised that an additional three to four businesses that did not have their reviews completed will be presented to the Board with a recommendation for non-compliance.

5.29 IIDI management advised that it will recommend to the Board that the fines imposed be the amount by which businesses fell short on the acceptable use of funds calculation.

5.30 We were advised that IIDI was seeking further guidance from the accounting firm on how to interpret the results of its sample testing and how to apply those results to the population of businesses that had a signed *Use of Proceeds Agreement*.

Recommendations

5.31 Island Investment Development Inc. should complete the review of its sample of businesses that had a signed *Use of Proceeds Agreement* and report the conclusions in its Annual Report.

5.32 Island Investment Development Inc. should determine and report publically on what its sample results mean to the population of businesses that had a signed *Use of Proceeds Agreement*.

IIDI FOLLOW-UP STRATEGY: REPORTING

5.33 Based on our office's recommendation in our 2009 value-for-money audit, we expected IIDI to have reported its follow-up activities in its Annual Reports. We reviewed IIDI's Annual Reports and held interviews with staff. We noted that in its 2009-10 Annual Report, IIDI provided an update on its follow-up activities. At the time of our audit, IIDI had not published Annual Reports for 2010-11 or 2011-12.

Recommendation

5.34 Island Investment Development Inc. should publish its Annual Reports on a timely basis.

MANAGEMENT RESPONSE

5.35 Our report was discussed with senior management of IIDI. A written response will be provided.

FINANCIAL AUDITS

6. INTRODUCTION TO FINANCIAL AUDITS

INTRODUCTION

6.1 To hold government accountable for its use of public funds and the resources entrusted to it, members of the Legislative Assembly need sufficient, reliable, and timely information on the province's operating results and its financial position. Section 13 of the *Audit Act* requires the Auditor General to perform financial audits of the province's consolidated financial statements, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to a financial audit by an external auditor.

6.2 The governing body of an organization, such as a board of directors, has overall responsibility for financial reporting and all related decisions. Management of the organization is responsible for preparing the financial information with oversight from those charged with governance. Reported financial information reflects management's assertions and provides information that is used to assess an organization's financial performance and management's stewardship over the economic resources entrusted to them. Therefore, it is imperative that the reader has confidence in the quality of the financial information provided and that it is received on a timely basis.

6.3 Information is most useful when it is provided on a timely basis. The timeliness of financial information is controlled by those charged with governance. The province's *Financial Administration Act* defines the reporting requirements for the province's consolidated financial statements and its Crown corporations, agencies, and boards.

6.4 To add credibility to the financial information being reported, users often rely on the work of an independent auditor. The auditor can objectively assess the accounting principles used, the estimates made, and other management assertions reflected in the financial information being reported. The auditor examines the entity's accounts and the presentation and disclosure of its financial information in accordance with Canadian auditing standards.

6.5 Under these auditing standards, the auditor must obtain a high level of assurance as to whether or not the financial information is fairly

presented. Upon completion of the examination, the auditor expresses an opinion on whether the financial information presents fairly, in all material respects, the information reported. The auditor's opinion is presented in the independent auditor's report.

6.6 In addition to issuing an independent auditor's report on the financial information, the auditor is required to communicate to those charged with governance and to management any significant issues or matters identified during the audit. This communication is provided in the form of a management letter. It identifies any significant weakness noted in the entity's system of internal control, in management processes, compliance issues, or any other area of concern which the auditor concludes should be brought to the attention of management and those charged with governance.

6.7 For the majority of the financial audits we performed, management letters were issued. We brought to the attention of management and the governing body any significant issues or concerns identified during the audit and made recommendations for improvement.

6.8 In the following sections, we provide summary comments on our audits of the province's consolidated financial statements, Crown corporations, agencies, and funds as well as appropriations and special warrants.

7. PUBLIC ACCOUNTS

BACKGROUND

7.1 Executive Council has overall responsibility for the management of the province's finances. The *Financial Administration Act* provides the authority for Executive Council to act through Treasury Board to fulfill its fiscal management responsibility. The Act further delegates general responsibility for the management and direction of the province's finances to the Minister of Finance, Energy and Municipal Affairs. Responsibilities of the Minister include the operation of the department; all activities related to the Operating Fund; and supervision, control, and direction of all financial matters of the province, unless specifically assigned to another minister or board.

7.2 Management of the province's finances is a significant responsibility which affects every taxpayer. With this responsibility comes the need for accountability. Members of the Legislative Assembly and taxpayers need to know how government has discharged its responsibilities in order to hold government accountable for its stewardship of the province's finances and resources.

7.3 The Legislative Assembly, including its Public Accounts Committee, plays a primary role in holding government accountable. To fulfill their oversight role, members of the Legislative Assembly need sufficient and reliable information. A primary source of information used by the Legislative Assembly is the Public Accounts. The Public Accounts consist of two volumes: Volume I contains the province's audited consolidated financial statements and Volume II contains the unaudited financial statements and details of revenues and expenditures of the Operating Fund and the audited financial statements of Crown corporations, agencies, and funds. Our comments in this chapter are limited to Volume I of the Public Accounts.

7.4 The *Financial Administration Act* requires the Minister of Finance, Energy and Municipal Affairs to annually table the Public Accounts in the Legislative Assembly. The Comptroller is required to prepare the Public Accounts. According to the Act, the Public Accounts must contain the financial statements of the Operating Fund and the consolidated financial

statements of the province. The consolidated financial statements provide the most complete information about the operating results and financial position of the province as they consolidate the accounts of the Operating Fund with those of the Crown corporations and agencies owned or controlled by the province.

OBJECTIVE AND SCOPE

7.5 The *Audit Act* provides the mandate for the Auditor General to examine and report on the use and control of public funds and resources entrusted to departments, Crown corporations, and agencies. Section 16 of the Act requires the Auditor General to annually audit the province's Public Accounts and express an opinion on the province's consolidated financial statements.

7.6 Under Section 17 of the Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General considers the audit work performed by the external auditor of these entities when performing the audit of the province's consolidated financial statements.

7.7 In the following sections, we provide observations and recommendations arising from our review of Volume I of the Public Accounts and our audit of the province's consolidated financial statements for the fiscal year ended March 31, 2012. Comments to address other reporting requirements under the *Audit Act* are also provided. In addition, our reporting also considers the results of all financial statement audits of entities included in the province's consolidated financial statements.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

7.8 The Public Accounts is a primary accountability report of the Government of Prince Edward Island and there is an opportunity to more fully utilize it as an accountability document. In recent years, we made a number of suggestions to improve the financial statement discussion and analysis section. Our review of the March 31, 2012, financial statement discussion and analysis concluded that our recommendations had not been

implemented. The following improvements could be made to the financial statement discussion and analysis:

- increased use of trend analysis to include items such as annual surplus/deficit trends, per capita trends, revenue and expense trends, credit rating trends, and budget to actual trends;
- increased use of comparisons to other jurisdictions;
- expanded variance analysis and discussion on budget to actual results;
- discussion of the economy in which the financial results occurred;
- discussion of additional appropriations and special warrants; and
- discussion of risks.

7.9 In addition, the province should also consider the value of adding commentary on the long-term projections of the province's finances. This would aid in understanding the current financial position of the province and the long-term implications of government policy decisions.

7.10 The Public Accounts is a core element of external reporting and provides an opportunity to integrate and accumulate key information about government operations. It is a document that has the potential to provide one of the most complete reports on government's management of the province's finances and its stewardship over those resources which can assist members of the Legislative Assembly and the public in holding government accountable. We encourage government to improve the financial statement discussion and analysis section of the Public Accounts.

TIMELY FINANCIAL STATEMENTS

7.11 The Public Accounts for the year ended March 31, 2011 were released on August 29, 2011. That year being an election year, the deadline required by the *Financial Administration Act* was August 31, 2011. This early release date was a significant improvement from prior years. The March 31, 2012 Public Accounts, however, were not released until January 4, 2013. Prince Edward Island was the second last province to release its 2012 Public Accounts.

7.12 We also noted 17 Crown corporation and agency financial statements were not completed within 90 days of their year-end as required by legislation. Financial statements should be issued on a timely basis. The usefulness of information declines as time elapses. In order for information to be useful for decision making and accountability, members

of the legislature and the public must have it before it loses its capacity to influence their decisions.

Recommendation

7.13 Financial statements should be issued in accordance with the reporting requirements of the *Financial Administration Act.*

AUDIT OPINION

7.14 Preparation of the province's consolidated financial statements is the responsibility of government. The Auditor General is responsible to express an opinion as to whether the province's consolidated financial statements present fairly, in all material respects, the consolidated financial position, results of its operations, changes in its net debt, and cash flow in accordance with the basis of accounting disclosed in the notes to the consolidated financial statements, which is Canadian accounting standards for the public sector. Our audit was carried out in accordance with Canadian auditing standards and on January 2, 2013, we issued an unqualified audit opinion on the province's consolidated financial statements.

ACCOUNTING POLICIES

7.15 As part of our audit, we are required to assess the accounting policies used to prepare the province's consolidated financial statements. The consolidated financial statements are prepared and presented in accordance with Canadian accounting standards for the public sector as prescribed by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

7.16 Public sector accounting standards require estimates to be disclosed when available, significant accumulating but non-vesting sick leave to be recorded, significant entities controlled by government to be consolidated, and environmentally contaminated sites to be assessed and estimated remediation costs to be recorded, if significant. Our audit of the Public Accounts noted issues in these areas as discussed in the paragraphs that follow.

7.17 ***Harmonized Sales Tax (HST) Estimate*** - Canadian accounting standards for the public sector require significant events occurring after year-end but before the completion of the financial statements to be disclosed in the notes to the financial statements. The standards also require an estimate of the financial impact to be disclosed, if available.

7.18 Subsequent to March 31, 2012, the province announced the implementation of the HST. The province did not disclose an estimate of the financial impact of the tax change stating it was not possible to estimate the impact on provincial tax revenues. The HST is effective April 1, 2013.

7.19 ***Sick Leave*** - In prior periods, we recommended accumulating but non-vesting sick leave be subject to an actuarial valuation. Our recommendation was not implemented. Our analysis of the issue resulted in Health PEI obtaining an actuarial valuation. Based on the magnitude of the liability determined by this valuation, the Comptroller's Office committed to obtaining an actuarial valuation for the civil service and the education sector. We were advised the results of these valuations will be reflected in the March 31, 2013 consolidated financial statements.

7.20 ***Government Reporting Entity*** - During our audit, we reviewed an assessment prepared by the Comptroller's Office on whether or not Holland College was controlled by government. A preliminary analysis concluded Holland College met the criteria for control as outlined in the public sector accounting standard. The issue is being reassessed to consider additional information.

7.21 ***Environmental Contamination*** - At March 31, 2012, the province's consolidated financial statements included a $350,000 provision for the remediation of approximately one hundred community dumps and four landfill sites. However, the province had not assessed the cost to remediate these sites noting the absence of a formal action plan as the reason. This is in contrast to a provision of $420,000 recorded for the remediation of three properties not owned by the province. The adequacy of the $350,000 provision should be re-examined.

Recommendation

7.22 Environmentally contaminated sites should be assessed and estimated remediation costs recorded if significant.

BUDGETS

7.23 As noted in prior periods, the province did not prepare its budget on the same basis as that used to prepare its consolidated financial statements. More specifically, the budget should include each fully consolidated entity's revenues and expenses on a line by line basis rather

than on a net basis. In addition, government business enterprises are consolidated on the modified equity basis and are presented in the budget on a net revenue basis.

7.24 The presentation of budget information on a net basis is a significant issue due to the magnitude of dollars involved. For example, government business enterprises for the March 31, 2012, fiscal year, have in excess of $519 million in assets, $453 million in liabilities, $147 million in revenue, and $101 million in expenses.

7.25 The absence of detailed budget information of Crown corporations and agencies impairs the ability of the members of the Legislative Assembly to assess and debate Crown corporation and agency operations. Further, detailed budget information enhances the accountability process.

Recommendation

7.26 Detailed budget information should be provided for significant budget items.

TANGIBLE CAPITAL ASSETS

7.27 Consistent with prior periods, we continued to note concerns with capital budgets which were not consistently prepared on the same basis as the province's tangible capital asset (TCA) policy. Although there has been improvement, capital budgets continued to include expenditures for assets which were below the province's threshold limits for capitalization as well as items which were not of a capital nature.

7.28 Our audit also raised concern over the classification of repairs and maintenance expenditures which were recorded as capital. In our opinion these items did not meet the criteria for capitalization. The province should improve the guidance in its TCA policy and prepare its capital budgets on a basis consistent with its policy.

7.29 At the time of our audit, we were advised the Comptroller's Office was reviewing and updating its TCA policy.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

7.30 Commitments and contractual obligations have a significant impact on future financial resources. At March 31, 2012, contractual obligations and commitments were in excess of $949 million. Included in this amount is $158 million for Holland College and the University of

Prince Edward Island to service the debt incurred by these organizations for capital assets.

7.31 Last year, we identified the need to improve tracking and disclosure of contractual obligations and commitments. During our audit for the year ended March 31, 2012, we noted progress has been made in the disclosure of commitments and contractual obligations; however, additional work is still required. We encourage the Comptroller's Office to continue its work on tracking and disclosing commitments and contractual obligations.

GUARANTEED DEBT

7.32 **Exhibit 7.1** summarizes the components of guaranteed debt for the past five years as reported in the Guaranteed Debt schedule in the consolidated financial statements. The amount of debt guaranteed by the province continues to grow. Guaranteed debt was $266.7 million at March 31, 2012, up from $252.7 million at March 31, 2011.

EXHIBIT 7.1
GUARANTEED DEBT
YEAR ENDED MARCH 31
(Thousands)

	2012	2011	2010	2009	2008
Lines of credit/demand loans	$ 54	$ 49	$ 40	$ 46	$ 67
Debentures/capital loans	264,623	249,805	251,335	238,607	202,729
Crown corporations and agencies	1,980	2,853	3,346	2,713	5,759
Total guaranteed debt	$266,657	$252,707	$254,721	$241,366	$208,555

7.33 The province's guarantee related to the Credit Union Deposit Insurance Corporation (CUDIC) is not included in the Exhibit. The CUDIC provides deposit insurance coverage on insurable deposits in each of the ten credit unions in the province. At December 31, 2011, insurable deposits totalled $620.8 million (2010 - $606.3 million). The CUDIC had an equity balance of $10.9 million (2010 - $10.2 million) at December 31, 2011.

7.34 The amount of debt guaranteed by the province represents a significant level of financial risk which needs to be monitored on a regular basis to ensure the financial exposure of the province is minimized.

ANNUAL REPORTS

7.35 Again this year, our audit noted the annual reporting requirements of the *Financial Administration Act* were not met. The Act requires reporting entities to provide an annual report within six months of their year-end. For the 2012 year, we identified 28 entities that did not issue their annual report within the time requirements of the Act. Non-compliance with this section of the Act diminishes accountability and we urge government to address this issue.

MANAGEMENT LETTERS

7.36 As part of our audit of the consolidated financial statements, we reviewed management letters issued to Crown corporations and agencies. As in prior periods, our review noted issues related to compliance with internal policies and accounting standards, the need to improve certain internal controls, and audit readiness issues. Last year, we recommended a process be implemented to monitor and track action taken to address identified issues. Our recommendation is still outstanding.

PENSION OBLIGATIONS

7.37 **Exhibit 7.2** reflects the gross pension obligation and the net pension assets for each of the past five years. The gross pension obligation has increased by almost $400 million since 2008. Pension obligations are based on full actuarial valuations completed every three years with these estimates updated by the province during the interim periods. Full actuarial valuations for all pension plans were completed April 1, 2011.

EXHIBIT 7.2
NET PENSION ASSETS
YEAR ENDED MARCH 31
(Millions)

	2012	2011	2010	2009	2008
Gross pension obligations	$(1,892.9)	$(1,782.6)	$(1,631.1)	$(1,596.6)	$(1,493.2)
Pension fund assets	1,527.2	1,527.8	1,408.4	1,157.7	1,381.0
Unfunded pension obligation	(365.7)	(254.8)	(222.7)	(438.9)	(112.2)
Unamortized net losses	355.0	279.3	270.4	471.2	155.4
Net pension assets (obligation)	$ (10.7)	$ 24.5	$ 47.7	$ 32.3	$ 43.2

7.38 Pension obligations are not hard numbers. They are estimates based on long-term projections using various assumptions and data determined by the province. The assumptions are required to represent management's best estimate and reflect their future plans and intentions. However, assumptions are very sensitive and small changes can materially change the reported pension obligation. Typically, assumptions chosen are within a defined range as determined by the province and assessed by actuaries for reasonableness. It is important to note that one assumption may be as valid as another and the upper and lower limits of these ranges can result in large changes in the reported pension obligation.

7.39 In recent years, including the 2012 year, changes to various pension assumptions such as the rate of return on plan assets, expected average remaining service life of employees, the discount rate, and retirement age assumptions have contributed to a significant increase in the gross pension obligation.

7.40 The gross pension obligation is important but the funded position of the pension plan must also be considered. The province has seven pension plans: the Civil Service Superannuation Fund (CSSF), the Teachers Superannuation Fund (TSF), the Pension Plan for Members of the Legislative Assembly (MLA), the MLA Supplemental Plan, Senior Management Compensation Plan, the Judges Pension Plan (Old), and the Judges Pension Plan (New). Four of these pension plans do not require beneficiaries to contribute to the plan. Benefits are paid by the province out of the Operating Fund as pension benefit payments become due. The total paid for the year ended March 31, 2012, for these four plans was approximately $1.2 million and the unfunded pension obligation was approximately $36 million at year-end. The other three pension plans are funded and the assets of these plans are held in the Prince Edward Island Master Trust.

7.41 **Exhibit 7.3** provides summary information on the Master Trust. The Master Trust is the pool of pension assets used to fund the pension obligations of the CSSF, the TSF, and the MLA pension plan (excluding the supplemental plan). The total market value of pension assets held and the rates of return are noted.

EXHIBIT 7.3
PRINCE EDWARD ISLAND MASTER TRUST
YEAR ENDED MARCH 31
(Millions)

	2012	2011	2010	2009	2008
Master Trust Investments	$1,450	$1,430	**$1,293	$ 1,008	$1,220
Change in Master Trust Investments:					
- Special contributions by government	$ 25	$ 26	$ 80	$ 28	$ 34
- Interest and dividends	47	42	37	40	48
- Market value gains (losses)	(26)	95	**192	** (261)	(87)
- Plan withdrawals and expenses less contributions	(26)	(26)	(24)	(19)	(22)
- Transfer of assets from Uniform Pension Plan*	-	-	-	-	24
Total increase (decrease)	$ 20	$ 137	$ 285	$ (212)	$ (3)
Plan asset rate of return	1.5%	10.2%	22.1%	(17.1%)	(3.1%)

*In prior years, health sector employees contributed to the Uniform Pension Plan. This plan was amalgamated with the Civil Service Superannuation Pension Plan.
**Reflects subsequent adjustment.

7.42 The objective of a pension plan is to provide income to individuals when they retire. To do this, individuals and the plan sponsor typically contribute to the plan. Plan contributions from the employee and employer plus earnings on plan assets are designed to be sufficient to pay the retirement benefit as prescribed by the plan text when the individual retires. In principle, contribution rates are established based on expected plan asset earnings to ensure sufficient funds are available to pay for the current service cost, that is, the amount of pension benefit earned each year.

7.43 **Exhibit 7.4** notes contributions for the CSSF and the TSF are in excess of the amount required to fund current service costs. For the year ended March 31, 2012, CSSF contributions were approximately 26 percent higher than the amount required to fund the current service cost while the TSF was approximately 30 percent higher. Net excess contributions for the CSSF are reducing the unfunded position of the plan. For the TSF, excess contributions do not cover the interest costs on the unfunded obligation. As a result, interest costs and payments to retirees are increasing the unfunded position of the plan.

EXHIBIT 7.4
CSSF AND TSF PENSION FUNDS
(Millions)

	2012	2011	2010	2009	2008
Civil Service Superannuation Fund Year Ended March 31					
Investment income – net	$ 28	$ 24	$ 23	$ 25	$ 30
Benefits paid	(48)	(44)	(41)	(38)	(36)
Interest costs on unfunded obligation	(11)	(9)	(14)	(3)	4
Shortfall	(31)	(29)	(32)	(16)	(2)
Current employee contributions*	25	24	23	22	21
Current employer contributions*	25	24	23	22	21
	50	48	46	44	42
Current service cost	(37)	(35)	(31)	(32)	(31)
Excess annual contributions	13	13	15	12	11
Net Shortfall/Excess	$(18)	$(16)	$(17)	$ (4)	$ 9
Teachers' Superannuation Fund Year Ended June 30					
Investment income – net	$ 14	$ 15	$ 13	$ 15	$ 19
Benefits paid	(41)	(39)	(38)	(36)	(35)
Interest costs on unfunded obligation**	(7)	(6)	(11)	(5)	(2)
Shortfall	(34)	(30)	(36)	(26)	(18)
Current employee contributions*	10	9	8	8	7
Current employer contributions*	10	9	8	8	7
	20	18	16	16	14
Current service cost**	(14)	(12)	(11)	(12)	(10)
Excess annual contributions	6	6	5	4	4
Net Shortfall	$(28)	$(24)	$(31)	$(22)	$(14)

*Includes excess employee and employer contributions.

**For the year ended March 31.

7.44 Subsequent to the completion of the March 31, 2012, consolidated financial statements, plan amendments were made to increase the contributions made by employees by one percentage point for both the CSSF and the TSF. This one percentage point change results in an increase of approximately 12.6 percent in employee pension contributions for the CSSF and 12.1 percent for the TSF. Employee contributions are matched by the province. This change in contribution rates is estimated to

contribute an additional $6.3 million to the CSSF and $2.4 million to the TSF each year which will improve the funded position of these plans.

7.45 Subsequent to year-end, the province issued promissory notes of $150.7 million to the CSSF and $80.3 million to the TSF to address the unfunded obligation. Both notes are payable in equal annual installments over ten years and are interest bearing. The notes can be cancelled at the sole discretion of the Minister of Finance, Energy and Municipal affairs if the funded level of the plan reaches 90 percent.

7.46 At the time of our audit, the province was reviewing the CSSF and TSF pension plans and was in consultation with the various stakeholders.

OTHER REPORTING REQUIREMENTS

CANCELLATION OR DISCHARGE OF DEBT

7.47 Section 16 of the *Audit Act* requires the Auditor General to report the total amount of any claims, debts, or monies due to the province that have been discharged, cancelled, and/or released under Section 26 of the *Financial Administration Act*. The total amount owed by third parties to the province and discharged, cancelled, released, and/or written-off was $1.085 million in 2011-12. The amount cancelled or discharged under Section 26 is detailed in **Exhibit 7.5**.

EXHIBIT 7.5
AMOUNTS CANCELLED OR DISCHARGED
YEAR ENDED MARCH 31, 2012

	Section 26 (1)	Section 26.1 (1)
Environment Tax Act	$ -	$ 2,889
Revenue Tax Act	-	176,397
Social Assistance Act	-	306,429
Health PEI	-	586,633
Crown Building Corporation	13,056	-
	$13,056	$1,072,348

SURPLUS (DEFICIT) CROWN CORPORATIONS AND AGENCIES

7.48 Section 16 of the *Audit Act* also requires the Auditor General to include information in the Annual Report on deficits of Crown corporations and agencies not covered by appropriations in the year in which they have been incurred and any surpluses not paid into the

Operating Fund in the year in which they were earned. In **Exhibit 7.6**, we have also included the cumulative surplus or deficit for each entity.

EXHIBIT 7.6
SURPLUS (DEFICIT)
CROWN CORPORATIONS AND AGENCIES
YEAR ENDED MARCH 31, 2012

	Annual Surplus (Deficit)	Cumulative Surplus (Deficit)
Advisory Council on the Status of Women	(15,239)	(15,146)
Agricultural Insurance Corporation	5,465,779	12,130,639
Aquaculture and Fisheries Research Initiative Inc.	(9,798)	495,863
Charlottetown Area Development Corporation*	166,068	636,953
Eastern School District (June 30, 2011)	(38,066)	3,634
Energy Corporation	2,881,360	16,399,869
French Language School Board (June 30, 2011)	(553)	11,582
Grain Elevators Corporation (July 31, 2011)	394,927	861,624
Harness Racing PEI Inc. (January 31, 2012)	119,223	(344,179)
Human Rights Commission	(21,874)	(30,137)
Innovation PEI	2,426,546	5,404,063
Island Investment Development Inc.	15,635,866	53,140,119
Island Waste Management Corporation	205,483	952,115
Lending Agency	105,248	1,727,924
Museum and Heritage Foundation	22,286	1,103,173
Self Insurance and Risk Management Fund	(134,213)	4,756,055
Student Financial Assistance Corporation	(2,891)	(6,455)
Summerside Regional Development Corporation*	(23,201)	1,317,291
Western School Board (June 30, 2011)	2,291	14,119

*Includes the provincial portion only.
Cumulative surplus (deficit) does not include contributed surplus or share capital.

MANAGEMENT RESPONSE

7.49 Our observations and recommendations have been discussed with management.

8. APPROPRIATIONS AND SPECIAL WARRANTS

INTRODUCTION

8.1 Government's legislative authority to spend public funds is provided annually by an appropriation act. Authority to exceed the initial amount set by an appropriation act is provided by a special warrant or transfer of an appropriated amount.

8.2 Appropriation acts require the approval of the Legislative Assembly whereas special warrants require the approval of the Lieutenant Governor in Council acting on the advice and recommendation of Executive Council. Special warrants are used when the Legislative Assembly is not in session and funds are needed for operations. Appropriation transfers are generally approved by Treasury Board.

8.3 For the fiscal year ended March 31, 2012, the *Appropriation Act (Current Expenditures) 2011* authorized $1,497.6 million in current expenditures while the *Appropriation Act (Capital Expenditures) 2011* authorized capital spending of $137.7 million. Special warrants accounted for an additional $31.2 million in authorized spending. Special warrants issued for current expenditures totalled $29 million while special warrants for capital expenditures totalled $2.2 million. For the March 31, 2012, fiscal period, $200,000 was sequestered from current expenditures and $1,451,600 was sequestered from capital expenditures.

APPROPRIATIONS

8.4 The *Audit Act* requires the Auditor General to "provide an opinion on whether the expenditures that were authorized by the annual appropriation act, or by special warrant, were expended for the purpose for which they were appropriated."

8.5 Our audit of appropriations and special warrants for the year ended March 31, 2012, concluded amounts were expended for the purpose for which they were appropriated. In addition to the information provided in **Schedules A** and **B**, readers should also consider the province's consolidated financial statements and our audit report on those statements.

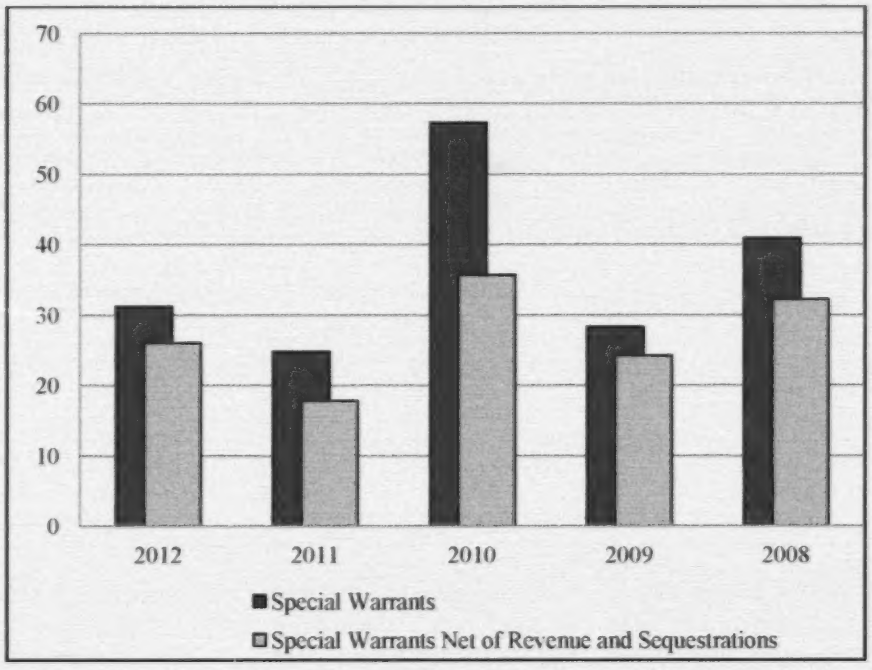
8.6 **Schedule A** provides a comparison of appropriations to actual expenditures in accordance with the classifications in the 2011 appropriation acts.

SPECIAL WARRANTS

8.7 The *Audit Act* also requires the Auditor General to list, in detail, all appropriations made by special warrant and their purpose. This list is provided in **Schedule B** of this report.

8.8 Special warrants for the March 31, 2012, fiscal year were partially offset by a $3.5 million increase in revenue and a sequestration of $1.7 million from previously authorized appropriations resulting in a net increase in spending authority of $26 million. **Exhibit 8.1** depicts the total amount of special warrants and special warrants net of revenue and sequestrations for each of the last five years.

EXHIBIT 8.1
SPECIAL WARRANTS
YEAR ENDED MARCH 31
(Millions)



PRIOR PERIOD OBSERVATIONS

8.9 Our audit identified several issues which we reported in previous years. These issues continue to be a concern and are discussed in the following paragraphs.

Delay in Issuing Special Warrants and Transfers

8.10 As required by the *Financial Administration Act*, expenditures should not be incurred unless provided for by an appropriation. In cases where an appropriation is expected to be exceeded, the spending authority should be in place prior to the expense being incurred. Consistent with prior years, our audit of appropriations identified instances when the approval was after the fact. That is, the statutory authority for the expenditure was not in place prior to the expense being incurred.

8.11 During our audit, we noted six departments and/or Crown corporations had exceeded their authorized current expenditure appropriation and two had exceeded their capital appropriation. As of the date of audit completion, four of the special warrants had not been issued. In order to comply with the requirements of the *Financial Administration Act*, expenditure forecasts should identify areas of over-expenditure on a timely basis so the appropriate spending authority can be in place prior to the expense being incurred.

Capital Expenditures

8.12 As in prior periods, we again noted instances where the province's tangible capital asset policy was not followed. Five departments and/or Crown corporations had expenditures funded out of their capital appropriation which did not meet the province's tangible capital asset policy. This is an ongoing problem that makes it difficult to determine whether or not amounts were expended for the purpose for which they were appropriated.

Monitoring Capital Budgets

8.13 Approved capital budgets are posted to the province's financial system. Normally, if an appropriation has been exceeded, it would be identifiable by a comparison of the budget to actual expenditure accounts throughout the year. As in prior periods, capital and non-capital transactions are posted to the capital expenditure account and are not reallocated until year-end. As a result, appropriations in the accounting system cannot be compared to actual expenditures.

Appropriation Transfers

8.14 *The Financial Administration Act* requires all appropriation transfers between departments to be reported to the Legislative Assembly on a timely basis. Consistent with the prior year, we noted two transfers which were not reported to the Legislature on a timely basis.

8.15 Recommendations have been made in prior years to address the previously noted issues. We strongly encourage management to address these outstanding matters.

ACCOUNTING ERROR

8.16 The province administers certain payments on behalf of the federal government which are not expenditures of the province. During the year, we noted that the Department of Innovation and Advanced Learning incorrectly recorded an expense of $2.4 million relating to these payments. This resulted in the department exceeding its appropriation and a special warrant was issued. The special warrant noted the amount was being offset by increased federal revenues.

8.17 Subsequent to issuance of the special warrant, the accounting error was corrected removing the expense and revenue amounts from the department accounts. A special warrant was not required for this item. **Schedule A** shows the department has under spent by approximately $3.0 million of which $2.4 million relates to the special warrant issued based on the accounting error.

MANAGEMENT RESPONSE

8.18 We have discussed our findings and recommendations with management.

UPDATE ON PREVIOUS RECOMMENDATIONS

9. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

9.1 Each year, the Auditor General's Annual Report to the Legislative Assembly includes a chapter on special audits and examinations conducted during the year. The recommendations arising from these audits are designed to contribute to improved management and administration in the public sector. It is management's prerogative to select the best course of action to address the issues identified. Our concern is that all recommendations are being addressed by management.

9.2 Annually, we request information on the action taken to address outstanding recommendations. This information is normally requested through the deputy minister or chief executive officer of the organization responsible for the subject matter under audit. At a minimum, we review each response for reasonableness. Verification of action taken as a result of our recommendations is normally conducted when the organization or program is scheduled for another audit.

9.3 Following is summary information we obtained on the status of recommendations from the special audits and examinations reported in the 2012 Annual Report of the Auditor General as well as outstanding recommendations from audits in the 2011, 2010, 2009, and 2007 annual reports.

LONG TERM PLANNING AND ACCESS - COMMUNITY MENTAL HEALTH

9.4 Following are the recommendations resulting from our audit of Long Term Planning and Access - Community Mental Health reported in the 2012 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from Health PEI and management of the Department of Health and Wellness.

Auditor General's Recommendation	Status/Management Response
The Department of Health and Wellness should develop a comprehensive long term plan for community mental health.	The Department has undertaken a comprehensive review of mental health and addiction services with the aim of streamlining service delivery, achieving better inter-agency integration and collaboration among programs and service providers, minimizing client delays and wait times, and optimizing the use of available resources both in government and in the NGO community. A final report is anticipated in early 2013. The Department is also drafting a comprehensive *Wellness Strategy* that will include a strong focus on mental wellness and mental resiliency. This document will place a renewed emphasis on health promotion, including positive mental health. The Department anticipates that these strategic initiatives will help to raise the profile of community mental health in the province and lead to better mental health outcomes for Islanders.

Auditor General's Recommendation	Status/Management Response
The Ministry of Health and Wellness should have a documented agreement with the NGO which at a minimum sets out • the funding provided; • the services to be delivered; and • the information required to demonstrate how the funding was used.	The Department has initiated a process to develop a signed agreement with the service provider.
Health PEI should establish a guideline setting the minimum number of attempts for community mental health to contact clients for screening. Health PEI should ensure referrals to community mental health are screened in the timeframe established in policy. Health PEI should ensure a triage level is assigned to all referrals screened by community mental health.	A minimum number of attempts to screen clients will be added to the draft Community Mental Health Adult Services Intake Standards prior to formal approval. Timeframes are outlined in the draft Community Mental Health Adult Services Intake Standards and are based on the urgency of referral. A triage rating will be assigned to all referrals where adequate information exists. An Intake Working Group will be established in the fall of 2012 to guide implementation of the Standards. Work will be completed by the end of fiscal year 2012-13.
Health PEI should ensure referrals from hospitals to community mental health are reviewed in the timeframe established in policy.	The timeframe is outlined in the draft Community Mental Health Adult Services Intake Standards. Approval of these Standards is pending.
Health PEI should implement a process to improve communication between hospitals and community mental health.	A number of activities have been completed or are underway as follows: • A communication process is in place involving liaison nursing which works directly with Unit 9 of QEH, Unit 3 of Hillsborough Hospital, Unit 9 Adolescent, and Inpatient PCH.

Auditor General's Recommendation	Status/Management Response
	• A Transitions in Care Working Group has been established whose mandate is to identify 3-4 quality improvement projects that can be achieved quickly with the intended goal of improving transition between mental health providers and/or sites. • A Group Programming Development and Advisory Working Group has been established with a mandate to improve continuity in programming and evidenced based practice. • Joint development of programming has been undertaken with the Adolescent Unit (QEH) program and Community Mental Health.
Health PEI should take action to improve wait times for community mental health services.	The integrated operational structure facilitates movement to a 'stepped care' approach to service delivery and organization. This is needs based and matches to appropriate care where available. This will enable immediate action to improve wait times. The following initiatives are also intended to improve wait times: • Integrated provincial planning to define core and specialized mental health programming is underway. Programming will be defined by the end of fiscal year 2012-13. • Planning focused on the mental health needs of the seniors population is being carried out collaboratively with other Health PEI programs and services. A plan for this population will be completed by the end of fiscal year 2012-13.

Auditor General's Recommendation	Status/Management Response
	• Implementation and continued planning for Collaborative Mental Health in the Primary Care Networks is in place, and initial training focused on providing enhanced mental health care was launched for Primary Health Care Division staff and physicians. • An annual plan for enhanced group programming will be completed. • A quality improvement project was undertaken at Richmond Center Intake. This approach will be applied provincially to Community Mental Health Services. The plan will be completed by December 2012. An Intake Working Group will be established to guide implementation. • The Provincial Wait Times Steering Committee has initiated work specifically designed to address psychiatry wait times.
The Director of Mental Health should obtain regular reliable information to monitor and manage wait times for community mental health services.	The Health Information Unit of Health PEI is working to establish an efficient and ongoing method for data extraction from the computerized information system to support monitoring, wait time management, screening, and triage.
Health PEI should establish target response times for community mental health referrals that are triaged as general or priority.	Core and specialized services will be defined by the end of fiscal year 2012-13. When core and specialized services are defined, target response times can be developed and implemented in a phased approach. Appropriate target times will be driven by need, function of service to be provided, and availability of resources. The work to establish target response times will begin in April 2013.

9. Update on Previous Recommendation

Auditor General's Recommendation	Status/Management Response
Health PEI should conduct and document periodic supervisory reviews of community mental health cases.	Operational and clinical standards related to the case review process will be established. The project is defined and approval is pending. It is anticipated this work will be completed by July 31, 2013.
Health PEI should take steps to improve the consistency and reliability of information entered in the case management system for community mental health.	The case management system training guide was finalized and implemented in February 2012, which led to an initial improvement of data quality. Psychiatry services in PEI have been reorganized into a provincial model to promote clinical consistency, reduce wait times, and equalize workloads. This new model has private practice psychiatrists as well as salaried/contract psychiatrists each of whom has differing accountability for clinical records. As part of the salary/contract model, improved use of the case management system is promoted and will be monitored by the Medical Director of Mental Health and Addictions and the Director of Mental Health and Addictions.

CONTRACT MANAGEMENT OF PROFESSIONAL SERVICES - TOURISM PEI

9.5 Following are the recommendations resulting from our audit of Contract Management of Professional Services - Tourism PEI in our 2012 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Tourism and Culture.

Auditor General's Recommendation	Status/Management Response
Except where sole sourcing is warranted, Tourism PEI should use a competitive process in awarding professional services contracts.	Tourism PEI is following Treasury Board policy. Tourism PEI management met with Procurement Services to discuss how the working relationship between the two groups can be strengthened.
As required by Treasury Board Policy, Tourism PEI should maintain the required summary information on all contracts in excess of $25,000.	Staff are updating and enhancing the existing contract lists to include all the information required by Treasury Board Policy.
Tourism PEI should: • Seek Treasury Board approval to enter into contractual arrangements where required by Treasury Board policy. • Follow its internal delegation of signing authority policy which requires two signatures from senior management on all contractual arrangements in excess of $25,000. • Document all contractual arrangements and ensure minimum Treasury Board required clauses are used. • Ensure that terms and conditions of the contractual arrangements are relevant and clear. • Document any amendments to contract terms.	Senior management have met with Treasury Board and have advised that all policies and procedures will be followed. An existing contract checklist has been revamped and re-established as a necessary item to accompany every contract. This will be required to be signed off by designated parties before contract signatures are obtained. Management has met with legal and insurance representatives to gain further knowledge on the terms and conditions required in contractual arrangements. Further, Tourism PEI is maintaining closer links to Treasury Board staff, and seeking advice as required.

9. Update on Previous Recommendation

Auditor General's Recommendation	Status/Management Response
In accordance with the *Financial Administration Act*, Tourism PEI should not make advance payments on its contractual arrangements.	Tourism PEI has taken action to address this recommendation.
Tourism PEI should make payments only to the party named in the contractual arrangement.	Tourism PEI agrees with this recommendation.
Tourism PEI should have contracted parties provide sufficient details to support invoices.	Tourism PEI has taken action to address this recommendation.

HIGHWAY CONSTRUCTION

9.6 Following are the recommendations resulting from our audit of Highway Construction reported in the 2012 Annual Report of the Auditor General. The status of implementation is provided based on information received from management of the Department of Transportation and Infrastructure Renewal.

Auditor General's Recommendation	Status/Management Response
The Department of Transportation and Infrastructure Renewal should document contractual arrangements and ensure minimum Treasury Board required clauses are used.	The Department will follow Treasury Board policy on contract services and ensure the required minimum considerations are met when hiring consultants.
In accordance with Treasury Board policy, the Department of Transportation and Infrastructure Renewal should ensure engineering services contracts exceeding $100,000 are approved by Treasury Board.	The Department receives an allotted capital budget in the preceding fall of each fiscal year which is approved by Treasury Board. The Department is responsible for hiring consultants within this approved allotment. The Department will pursue approval from Treasury Board for any consulting contracts exceeding the $100,000 value.
In accordance with the General Provisions and Contract Specifications for Highway Construction, the Department of Transportation and Infrastructure Renewal should obtain performance security for construction contracts.	The Department has made changes to its processes to ensure that the performance security for construction and warranty are in place. On-going monitoring is being adhered to in order to ensure the performance security remains valid.
The Department of Transportation and Infrastructure Renewal should ensure key decisions and discussions are documented for highway construction projects including • minutes of job meetings; and • approval of the chief engineer for significant project revisions.	The Department will document this information and include it in the project file. A periodic review of files will be completed to verify compliance.

9. Update on Previous Recommendation

Auditor General's Recommendation	Status/Management Response
The regional engineer should document approval of the construction schedule provided by the contractor.	The Department presently does not send the contract to the Minister for signature until the engineer has approved the construction schedule. The engineer will now sign and date the construction schedule verifying his approval.
Where contractors receive price adjustments allowed under the specifications, the regional engineer should ensure calculation of these adjustments is supported with documentation in the construction project file.	The Department will adhere to this recommendation and include all relevant calculations in the file.
Where penalties established under the specifications are waived, the reasons and approval of the chief engineer should be documented.	The Regional Engineer will document all penalties or bonuses associated with the specific contracts. If penalties are waived for a justifiable reason, the Chief Engineer will sign the relevant documentation.
The Department of Transportation and Infrastructure Renewal should ensure payments related to highway construction projects are authorized by personnel with appropriate signing authority.	The Department shall provide signing authority limit lists to payment processing personnel and provide positive guidance to staff to ensure this issue is addressed.
The Department of Transportation and Infrastructure Renewal should ensure a certificate of substantial completion is issued for each highway construction project in accordance with the *Mechanics' Lien Act*.	The Department will ensure that all relevant substantial completion documents are completed for each project. For projects spanning two years, substantial completion documents will be issued for each year in which work has been performed.
The Department of Transportation and Infrastructure Renewal should ensure holdbacks are calculated and retained in accordance with the requirements of the *Mechanics' Lien Act*.	The Department will ensure all relevant calculations are included in the file and that the appropriate amount is held to satisfy the *Mechanics' Lien Act*.

Auditor General's Recommendation	Status/Management Response
When a highway construction project extends from one year to another, the engineer's certificate of substantial completion issued after year one should indicate it relates to completion of the work scheduled for year one of the contract.	The Department will comply with the recommendation and include all relevant documentation in the file.
Where test results vary from specifications but are deemed acceptable, management of the Materials Testing Lab should document approval on the test sheets.	The Department will adhere to this recommendation. Future documentation will be signed for materials marginally meeting specification compliance, but deemed acceptable based on engineering judgement.
Management of the Materials Testing Lab should sign the test reports for the asphalt mix design to indicate verification and approval.	The Department's Lab staff will sign all relevant documentation for the asphalt mix design to indicate verification and approval.
Management of the Materials Testing Lab should ensure asphalt mix design formulas include all the information required by the specifications including • the type and source of asphalt cement; • the name and contact information of the lab performing the tests on the asphalt cement; and • the quantity and type of anti-stripping agent used in the mix.	The Department's Lab staff shall adhere to this recommendation.
Field test results on asphalt production that are outside the limits established in the specifications should be signed by lab management and provided to the regional engineer.	The Department's Lab staff will ensure compliance with this recommendation.
The Department of Transportation and Infrastructure Renewal should evaluate the impact of increasing the specification for target minimum asphalt compaction.	The Department will undertake a study of the impact of increasing the specification for target minimum asphalt compaction. This study will be completed in a 12 month period and be reviewed for implementation.

9. Update on Previous Recommendation

Auditor General's Recommendation	Status/Management Response
Compaction and profilograph test results provided to the project manager and regional engineer should be signed to indicate they were verified by a lab supervisor.	The Department's lab staff will comply with this recommendation.
Management of the Materials Testing Lab should conduct and document periodic internal reviews of the work completed by lab personnel.	The Materials Testing Lab will establish and implement an internal laboratory technician review and certification protocol in 2012.
The Department of Transportation and Infrastructure Renewal should ensure job meetings on highway construction projects include acknowledgement of environmental risks related to the project.	Where relevant highway construction projects include environmental issues and risks associated with the project, the Department will ensure these discussions are acknowledged in job meeting minutes.
The Department of Transportation and Infrastructure Renewal should adhere to environmental conditions imposed under special environmental permits.	The Department will adhere to requirements and/or conditions contained in all environmental regulatory permits and authorizations that are issued for project activities, including planned compensation for fish habitat within the required timeline proposed.
The Department of Transportation and Infrastructure Renewal should develop a policy on the frequency and documentation required for inspections carried out by environmental field officers.	The Department will formalize a policy on the frequency and documentation required for inspections carried out by environmental field officers.

GRANTS AND LOANS - OFFICE OF ENERGY EFFICIENCY

9.7 Following are the recommendations resulting from our audit of Grants and Loans - Office of Energy Efficiency which was reported in the 2012 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Finance, Energy and Municipal Affairs.

Auditor General's Recommendation	Status/Management Response
The Office of Energy Efficiency should retain the income documentation of applicants where this information is applicable to program eligibility.	The Office of Energy Efficiency agrees with this recommendation and has taken steps to implement the recommendation.
The Office of Energy Efficiency should perform credit assessments on regular income applicants of the PEI Energy Efficiency Loan Program.	The Office of Energy Efficiency agrees with this recommendation and will complete credit checks on regular income loan applicants.
The Manager of the Office of Energy Efficiency should provide documented approval on all loan applications prior to the loans being issued by the PEI Lending Agency.	The Office of Energy Efficiency has implemented this recommendation.
The Office of Energy Efficiency should obtain invoices for eligible upgrades completed by applicants of the PEI Energy Efficiency Loan Programs.	The Office of Energy Efficiency has implemented this recommendation.
The Office of Energy Efficiency should formalize its arrangement with the PEI Lending Agency for disbursing, monitoring, and collecting PEI energy efficiency loans.	The Office of Energy Efficiency agrees with this recommendation and has taken steps to implement it.
The Office of Energy Efficiency should regularly report to Treasury Board on the effectiveness of the energy efficiency loan and grant programs.	The Office of Energy Efficiency has implemented this recommendation.

SPECIAL EDUCATION - EASTERN SCHOOL DISTRICT

9.8 Following are the outstanding recommendations resulting from our audit of Special Education - Eastern School District in the 2011 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Education and Early Childhood Development.

Auditor General's Recommendation	Status/Management Response
In accordance with the Ministerial Directive, the Department of Education and Early Childhood Development should evaluate and report on special education programs and services.	A draft report on Special Education has been prepared focusing on how the system can best support and strengthen the skills of classroom teachers and resource teachers to meet the educational needs of all students including those with special needs. Both financial and pedagogical aspects were considered.
The Department of Education and Early Childhood Development should re-examine the funding formula in place for instructional special education resource positions.	The Department will be meeting with senior staff at the English and French School Boards to begin the staffing process for 2013-14. It will include examining how all special education/resource positions are assigned. However, there will be no money for new positions.
The Department of Education and Early Childhood Development should obtain and monitor information from the Eastern School District on the staffing and resource allocations for special education.	In September 2012, the Eastern and Western School Boards were amalgamated. The Department will be requiring the English Language School Board (ELSB) to provide a detailed analysis of where and how each position is to be utilized for September 2013.

Auditor General's Recommendation	Status/Management Response
The Department of Education and Early Childhood Development should establish standards for the qualifications, experience, and training for special education instructional positions.	Senior staff at the new ELSB have been working to determine what constitutes special education/resource services and the qualifications and experience required to deliver these services. An analysis will be completed early in 2013 to complete a snapshot of the ELSB with respect to the following information: • total FTEs dedicated to the role of resource as defined by assessment, consultation and direct/targeted intervention; • how the FTEs are allocated or shared in each school; and • the level of formal and informal training of any staff person with resource as a portion of his/her assignment.
The Department of Education and Early Childhood Development should establish and communicate clear criteria on what constitutes special education programming and services and which students should be recorded in the student database.	A working committee has been established comprised of Board and Department staff to make recommendations to the Minister as to whom should receive special education/ resource support, and the skills and training needed to provide those supports.

FOOD SAFETY

9.9 Following are the outstanding recommendations resulting from our audit of Food Safety in the 2011 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on the information received from management of the Department of Health and Wellness.

Auditor General's Recommendation	Status/Management Response
In accordance with Department policy, the Department of Health and Wellness should take action to provide public access to food safety inspection reports.	Environmental Health continues to work with Information Technology Shared Services (ITSS) to provide timely and accurate public access to food safety reports. ITSS has committed time in January 2013 to work on the electronic platform and further testing will be required prior to the site going live.
The Food Safety inspection form should be reviewed and updated to ensure it reflects the requirements of the *Eating Establishments and Licensed Premises Regulations*.	Amendments to the *Eating Establishments and Licensed Premises Regulations* are scheduled to occur in 2013. Subsequent follow-up work will be conducted by Environmental Health on the inspection forms and ITSS will examine the electronic platform.

SCHOOL MAINTENANCE - WESTERN SCHOOL BOARD

9.10 Following are the outstanding recommendations resulting from our audit of School Maintenance -Western School Board in the 2011 Annual Report of the Auditor General. The status of implementation is provided based on information received from management of the recently established English Language School Board (ELSB).

Auditor General's Recommendation	Status/Management Response
The Western School Board should develop a policy which at a minimum • identifies maintenance level standards it expects to achieve for its buildings, equipment, and playgrounds; • defines criteria for prioritizing its maintenance projects; • incorporates the roles and responsibilities of key players; and • refers to key legislation that impacts the maintenance of schools.	Administration of the former Western School Board had begun development of a maintenance policy prior to the amalgamation of the two school boards. A new policy director for the ELSB is now in place. The Board intends to build on this effort and this policy will be given a high priority.

INSPECTION OF BRIDGES

9.11 Following are the outstanding recommendations resulting from our audit of Inspection of Bridges in the 2011 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Transportation and Infrastructure Renewal.

Auditor General's Recommendation	Status/Management Response
Contractual arrangements of bridge inspections should be open to a competitive process. In accordance with Treasury Board policy, where a competitive process is not followed Treasury Board approval should be obtained.	The Department of Transportation and Infrastructure Renewal has received approval from Treasury Board for bridge inspection contracts for the 2012-13 fiscal year. In accordance with Treasury Board direction, the Bridge Inspection Program will be subject to a competitive process in future years.
In accordance with Treasury Board Signing Authority Policy, contracts for consultant services that exceed $100,000 should be authorized by Treasury Board.	The Department of Transportation and Infrastructure Renewal will work closely with staff from the Department of Finance, Energy and Municipal Affairs to ensure that the policy and procedural rules are followed.

SECURITY ASSESSMENT - DRUG INFORMATION SYSTEM

9.12 Following are the outstanding recommendations resulting from our audit of the Security Assessment - Drug Information System (DIS) in the 2010 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI, who coordinated with Information Technology Shared Services (ITSS) to provide this update.

Auditor General's Recommendation	Status/Management Response
Information Technology Shared Services (ITSS) should continue to work with Information Technology Governance Council (ITGC) to gain approval for the Government Information Security Policy (GISP).	ITSS is revising a risk based implementation plan for the GISP which will be presented to the Standing Committee on Corporate Management (SCCM). This implementation will impact all government departments and ITSS will continue to work with the SCCM to ratify the GISP in a way that is effective and causes minimum disruption to departments.
The Department of Health in conjunction with ITSS should implement standard password controls for the DIS.	The implementation of this has been delayed due to operational priorities and staffing shortages. It is now scheduled for 2013-14.
The Department of Health should work with ITSS to establish a series of baselines for system security settings in the DIS based on needs and common recognized standards.	An upgrade to the DIS is expected in 2013 and system security settings will be available at that time. Once these settings are available, Health PEI will work with ITSS to establish a series of baselines. Security auditing processes have been put in place and are being monitored.
The Department of Health in conjunction with ITSS should approve and implement a formal set of policies and procedures governing DIS change management. Evidence should be retained for key control points throughout the process including: authorization, testing, approval, segregation of duties, and monitoring.	Application change management is handled through formal work requests and statements of work. There are also newly developed reports to track the vendor activity through monthly Service Level Agreement reporting.

9. Update on Previous Recommendation

Auditor General's Recommendation	Status/Management Response
Given the sensitivity and privacy of the information that is available on the DIS, the use of a local user account by an external service provider should be logged and monitored and/or shadowed during active service provider sessions by the Department of Health with support from ITSS.	Passive audit reports are currently being developed and a log monitoring tool is currently being investigated.
The Department of Health should work with ITSS to establish a series of baselines for system security auditing of the DIS based on needs and on recognized standards. The auditing program should address the following: what is audited, how often logs are reviewed and what action should be taken on identified events.	The DIS business unit audits user access, user behaviors, and inactive accounts. Discrepancy reporting will be the next phase of auditing. ITSS continue to work with the business unit to update and refine audit reporting processes.

PROVINCIAL NOMINEE PROGRAM - IMMIGRANT PARTNER CATEGORY

9.13 Following is the outstanding recommendation resulting from our audit of the Provincial Nominee Program - Immigrant Partner Category in the 2009 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from management of Island Investment Development Inc. (IIDI).

Auditor General's Recommendation	Status/Management Response
IIDI should conduct an evaluation of the Immigrant Partner Category of the Provincial Nominee Program.	An evaluation of the Provincial Nominee Program, including the Immigrant Partner Program, has been completed by an external accounting firm. The results have been provided to IIDI's board and staff are taking action on the recommendations.

IN-PROVINCE PHYSICIAN PAYMENTS

9.14 Following are the outstanding recommendations resulting from our audit of In-Province Physician Payments as presented in the 2009 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI.

Auditor General's Recommendation	Status/Management Response
The renewal forms for a PEI Health Card should state the basic criteria a person must meet to be eligible for Medicare coverage on PEI and applicants should be required to confirm that they meet these criteria during renewal.	Health PEI intends to review the work volume associated with requiring a written confirmation of eligibility. By the end of the summer of 2013, Health PEI intends to revise the renewal letters to include eligibility requirements.
The Department of Health should use the information obtained from shadow billings to compare the costs and productivity of physician services under the various payment models.	Health PEI has established a manager position responsible for the administrative management of specialist physicians on alternative pay arrangements. This position is responsible for establishing evaluation protocols to evaluate the effectiveness of alternative pay arrangements. Health PEI uses shadow billing information when it undertakes reviews of physician service areas and when it receives requests for expansion of physician services. Reporting capabilities have improved so that the financial reporting system can provide management with desktop access to payment information by physician specialty, by facility and by pay modality. An annual comprehensive payment analysis is completed and reviewed to identify possible productivity issues when a physician is paid using more than one pay modality.

Auditor General's Recommendation	Status/Management Response
Arrangements with the external service provider for the Integrated Claims System (ICS) should be formalized in a signed agreement and approved by Treasury Board as required by Treasury Board policy.	ITSS has been working to develop a contract that includes the appropriate clauses to meet Treasury Board Policy and Risk Management and Insurance section requirements. Upon completion, a formal agreement will be signed by ITSS and the external service provider.
The Information Technology Governance Council should formalize a Government Information Security Policy. ITSS in coordination with the Department of Health should apply the approved policy requirements to the Service Level Agreement for the Integrated Claims Systems.	ITSS continues to work on completing and implementing the Government Information Security Policy. ITSS is working with departments to validate content, determine the impacts of implementation, and create mitigation strategies to address issues such as cost, training, and risk.
ITSS in coordination with the Department of Health should monitor the activity of users in the Integrated Claims System.	Logging tables have been introduced to capture more detailed history on events in the database. Further functionality for security monitoring and access controls will be introduced in 2013.
ITSS in coordination with the Department of Health should take the necessary steps to improve the usefulness of the monitoring report.	Further functionality for security monitoring and access controls will be introduced in 2013.

DEPARTMENT OF SOCIAL SERVICES AND SENIORS
GRANTS TO NON-GOVERNMENT ORGANIZATIONS

9.15 Following is an outstanding recommendation resulting from our audit of Department of Social Services and Seniors Grants to Non-Government Organizations as presented in the 2009 Annual Report of the Auditor General. The status of implementation is based on information received from management of the Department of Community Services and Seniors.

Auditor General's Recommendation	Status/Management Response
The Department of Social Services and Seniors should develop a strategy outlining its objectives and criteria for providing funding to Non-Government Organizations (NGOs).	The Department has developed a policy and related evaluation tools which provides a formal approach to how the Department will respond to funding requests from NGOs. The Department intends to share the policy with current NGO partners for their input.

PEI ENERGY CORPORATION

9.16 Following are the outstanding recommendations resulting from our examination of the PEI Energy Corporation as presented in the 2007 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the PEI Energy Corporation.

Auditor General's Recommendation	Status/Management Response
The Energy Corporation should develop a strategic plan that is linked to the renewable energy strategy and approved by the Board of Directors.	In January 2013, Government released the PEI Energy Commission's report - *Charting our Electricity Future*. Government is evaluating all recommendations pertaining to the Energy Corporation and will be developing an appropriate strategic plan for the Corporation during the 2013-14 fiscal year.
The Energy Corporation should prepare a business plan, linked to its strategic plan that outlines planned activities and required resources.	A business plan for the Energy Corporation will be prepared upon approval of the strategic plan.

PUBLIC ACCOUNTS COMMITTEE

10. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

10.1 The Standing Committee on Public Accounts is a committee of the Legislative Assembly. The Committee currently consists of seven members chaired by a member of the Official Opposition. It is charged with matters concerning the Public Accounts of the province and the Auditor General's Annual Report.

10.2 The Committee has an important role in the accountability process. Through Committee proceedings, government is held accountable for the use of public funds and the stewardship of public resources. The Committee holds public meetings and requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues the Committee deems appropriate. Through its deliberations, the Committee contributes to improved accountability and effectiveness in government operations.

PROCEEDINGS AND RESULTS

10.3 During the year, the Committee met to conclude its review of the 2011 Annual Report and to review the 2012 Annual Report of the Auditor General. Since the date of the Auditor General's last Annual Report up to March 1, 2013, the Committee met with the Auditor General on six occasions. The Auditor General assisted the Committee in its deliberations and provided additional information and clarification as requested.

10.4 In its April 17, 2012, report to the Legislative Assembly, the Committee endorsed the recommendations and observations made in the special audits and examinations section of the 2011 Report of the Auditor General to the Legislative Assembly. The Committee in its report referred to a number of best practices it has adopted including requiring each department referenced in the Annual Report of the Auditor General to provide the Committee with an action plan indicating how and when it will comply with the recommendations made by the Auditor General.

10.5 In its report dated November 23, 2012, the Committee endorsed all the recommendations and observations from the special audits and examinations section of the 2012 Auditor General's Annual Report. The Committee requested that appropriate resources be provided to the Office to continue its work of examining and reporting on government operations. The Committee's report stated that an action plan was received from each department referenced in the Auditor General's 2012 Annual Report indicating how and when they intend to comply with the recommendations in that Annual Report.

OFFICE OF THE AUDITOR GENERAL

11. OFFICE OF THE AUDITOR GENERAL

MISSION

11.1 The Office of the Auditor General conducts independent audits and examinations that provide objective information, advice and assurance to the Legislative Assembly. The Office promotes accountability and best practices in government operations.

RESPONSIBILITIES AND FUNCTIONS

11.2 The mandate of the Office is derived from the *Audit Act*. The Office has the authority to conduct audits and examinations of provincial departments, Crown corporations, agencies, and funds. The Auditor General is required to report annually to the Legislative Assembly on the results of the audits and examinations conducted by the Office.

11.3 Financial audits include examinations of financial statements and other financial reports on which we provide assurance that the financial information is presented fairly in accordance with the applicable Canadian accounting standards.

11.4 The *Audit Act* provides authority for the Auditor General to conduct any special audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with the applicable statutory provisions.

11.5 In addition, the Act allows

- special assignments or investigations to be conducted at the request of the Lieutenant Governor in Council;
- the Auditor General or his designated representative to exercise all the powers of a commissioner under the *Public Inquiries Act* in examining any person under oath with respect to any matter which the Auditor General is authorized to check, examine, or audit; and
- the Auditor General to authorize any duly qualified person to conduct any audit or examination on behalf of the Auditor General.

11.6 The Auditor General reports annually to the Legislative Assembly and his report shall

- state whether in his opinion the Public Accounts of the province are presented fairly in accordance with the disclosed basis of accounting on a consistent basis;
- call attention to anything resulting from his examination that he considers necessary to be brought to the attention of the Legislative Assembly, including any cases where essential records and documentation of electronic data processing have not been maintained or the system of internal control is inadequate to
  - safeguard and protect the public property of the province
  - ensure the accuracy and reliability of the accounting data
  - promote operational efficiency
  - ensure adherence to prescribed governmental policies and procedures on financial matters;
- call attention to any infractions of the *Financial Administration Act* that have come to his attention;
- include information on deficits of any agency of government not covered by appropriations, and any surpluses not paid into the operating fund;
- include a statement of the total amount of any claims, obligations, debts, or moneys that have been discharged, cancelled, and released under section 26 of the *Financial Administration Act*; and
- list in detail, appropriations made by special warrant and the purpose of such appropriations.

OPERATING PHILOSOPHY

INDEPENDENCE

11.7 The Auditor General is responsible to the Legislative Assembly, not government. The Office is positioned to offer impartial opinions and recommendations on government operations and management practices. The *Audit Act* establishes the legal framework for an independent audit office. The key components in building that independence include

- the existence of a Legislative Audit Committee which reviews the Office's budget;
- the authority to carry out audits and examinations which the Auditor General deems necessary;

- the right of access to records and information necessary to perform audit functions;
- the power to request and receive information or explanations required; and
- the requirement to report annually to the Legislative Assembly.

11.8 In addition, the independence of the Office is supported by our quality assurance policies and an Office code of conduct which includes, among other things, policy and guidance on confidentiality, ethics, impartiality, and potential conflict of interest situations.

AUDIT PLANNING

11.9 An audit work plan is developed each year based on statutory requirements and audit priorities established by the Office. The annual work plan includes a number of financial audits as well as special audits and examinations. Special audits and examinations of departments, Crown corporations, and agencies are carried out based on prioritization of risk factors as well as a desire to provide broad audit coverage across numerous government organizations on a periodic basis.

11.10 Various factors are considered in establishing priorities for special audits and examinations. These include the materiality of revenues and expenses, the possible matters of significance that may result from the audit, the complexity of operations or program delivery, the results of previous audits, the timing of the last audit and the potential impact on the public. Other factors considered in planning each audit include our audit mandate, expected resources required to complete the audit, the quality of the existing financial and management controls within the entity, and the impact of IT systems and controls.

PROFESSIONAL STANDARDS

11.11 Generally accepted accounting principles for government are established through the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with numerous accounting issues. We rely on these principles in conducting our audits as well as other guidance provided by the CICA and other authoritative sources.

11.12 Our financial audits are conducted in accordance with Canadian Auditing Standards (CAS) for assurance engagements as promulgated by the CICA. The CAS require that the auditor complies with ethical requirements, plans and performs the audit to obtain reasonable assurance that the financial statements are free from material misstatement, and allows the auditor to express an opinion on the financial statements. Special audits and examinations are conducted in accordance with Other Canadian Standards as outlined in the CICA Handbook. The standards provide guidance in the following areas: compliance with ethical requirements, knowledge of the entity, audit planning, implementation and reporting.

11.13 For financial statement audits, the Office is subject to a periodic practice inspection which is carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the Office meets the standards required of the profession. The most recent practice inspection was conducted in November 2012.

11.14 The Canadian Council of Legislative Auditors (CCOLA) provides a peer review process for financial statement and special audits and examinations. This peer review process provides assurance that the Office is conducting audits in compliance with the applicable standards of the Canadian Institute of Chartered Accountants.

PERSONNEL, ADMINISTRATION, AND AFFILIATIONS

ORGANIZATION

11.15 The Office experienced significant change this year as a result of the retirement of Auditor General, Colin Younker. Through dedicated service to his position, Mr. Younker served the Office with the highest degree of integrity and professionalism. We wish him all the best with his future plans. In addition, we would like to acknowledge the retirement this year of one auditor who had over 32 years of service with the Office.

11.16 The Office staff complement consists of two audit directors, thirteen auditors, and two administrative staff. One auditor position and one student auditor position remain vacant and are not funded. With our

limited staff, we strive to provide reasonable audit coverage on a cyclical basis.

11.17 Pursuant to the *Audit Act*, the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible for the administration of the Office of the Auditor General. The Committee includes the Speaker of the Legislative Assembly, who is the Chairperson, the Leader of the Opposition, and the Minister of Finance, Energy and Municipal Affairs. On an annual basis, the Committee reviews the budget estimates submitted by the Auditor General.

11.18 For the year ended March 31, 2013, the approved budgeted expenditures for the Office amounted to $1,770,100 and are summarized in **Exhibit 11.1**.

EXHIBIT 11.1
OFFICE OF THE AUDITOR GENERAL
OFFICE BUDGET
YEAR ENDED MARCH 31, 2013

Account	Budget
Administration	$ 32,600
Equipment	7,200
Materials, supplies and services	11,000
Professional and contract services	18,300
Salaries	1,660,600
Travel and Training	32,400
Contributions - CCAF	8,000
Total	**$1,770,100**

PROFESSIONAL AFFILIATIONS

11.19 We strive to remain current in all aspects of legislative and other audit practices as well as new developments within the profession. The Office maintains a close association with a number of professional organizations to share experience and methodology with a view to contributing to the ongoing development of legislative audit practices. Some of the key affiliations include the following:

- **The Canadian Council of Legislative Auditors (CCOLA)** - The meetings of the Council bring together legislative auditors of the federal government, the provinces, and the territories. These meetings provide an opportunity for information exchange, discussion, development, and enhancement of legislative audit practices. Members of the Office serve on various CCOLA committees.

- **The Public Sector Accounting Board** - The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting practices across Canada. The Board conducts research and issues recommendations on public sector accounting issues.

- **The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island** - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession.

- **The CCAF** - The Office has been a member and supporter of the CCAF since its inception in 1980. CCAF is a Canadian research and education foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.

OBJECTIVES AND ACCOMPLISHMENTS

11.20 In accordance with its mandate, the Office has established two broad goals as follows:

- ***to promote improved accountability for, and management of public funds; and***
- ***to continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.***

In support of these goals, the Office has developed a number of objectives. The following paragraphs provide information on each of these objectives and the accomplishments during the year.

(i) As required pursuant to the *Audit Act*, to prepare an Annual Report for the Legislative Assembly on the results of the audits that have been carried out.

11.21 The Auditor General's 2012 Annual Report was tabled in the Legislative Assembly on April 10, 2012. The Report was referred to the Public Accounts Committee, and the Auditor General appeared before the Committee to discuss the Annual Report and provide additional information and explanations.

(ii) To express audit opinions on the financial statements of the province and other Crown corporations and agencies subject to audit by our office.

11.22 An unqualified audit opinion was provided on the province's consolidated financial statements for the year ended March 31, 2012. In addition, we conducted a number of financial statement audits of Crown corporations, pension and trust funds, and other agencies. This process provides assurance to taxpayers, through the Legislative Assembly, on the fairness of financial information reported by government.

(iii) To perform selected special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are complying with applicable statutory provisions.

11.23 The extent of special audit and examination work that we can undertake is determined by the resources available after the financial audit work has been assigned.

11.24 Our special audits and examinations provide observations on the management of public resources in a number of areas and include recommendations to improve management controls and practices where issues are identified.

(iv) To provide updated information on implementation of the recommendations arising from our audits.

11.25 We provide updated information in our Annual Report on outstanding recommendations. Each year, we request an update from senior management of Departments and other government organizations on the action taken or planned to address outstanding recommendations. Although we do not audit the responses, they are reviewed for reasonableness.

(v) To maintain technical competence in an evolving accounting and auditing environment.

(vi) To remain aware of and provide input to the development of public sector accounting standards.

(vii) To build leadership within the Office by providing professional development and training opportunities for staff.

11.26 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants, which helps us to keep up to date on emerging accounting and auditing issues. We regularly participate in the development of standards by providing comments during the discussion stages. In addition, we maintain professional affiliations with the Canadian Council of Legislative Auditors and the CCAF. This participation allows us to share knowledge and experience as well as receive information on newly developed methodology and emerging issues.

11.27 All permanent audit staff within the Office have professional accounting designations. We strive to provide training and professional development opportunities to staff. Individual staff members attend various professional courses, conferences, seminars, and meetings.

11.28 The Institute of Chartered Accountants of Prince Edward Island requires members to take a minimum of 20 hours of professional development per year and not less than 120 hours in a three year period. Our professional staff have met these training requirements.

SCHEDULES

OPERATING APPROPRIATIONS

	APPROPRIATION ACT 2011	SPECIAL WARRANTS	TRANSFERS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2012	UNDER (OVER) EXPENDITURES 2012
CURRENT							
AGRICULTURE	$ 32,763,600	$ 5,429,400	$ 37,100	$ -	$ 38,230,100	$ 38,196,578	$ 33,522
AUDITOR GENERAL	1,707,100	-	45,700	-	1,752,800	1,742,485	10,315
COMMUNITY SERVICES, SENIORS AND LABOUR	94,169,400	6,845,700	86,300	-	101,101,400	100,774,359	327,041
INTERMINISTERIAL WOMEN'S SECRETARIAT	434,100	-	1,800	-	435,900	435,880	20
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	227,327,600	-	0	-	227,327,600	222,219,653	5,107,947
ISLAND REGULATORY AND APPEALS COMMISSION	1,385,900	-	14,400	-	1,400,300	1,400,300	-
ENVIRONMENT, ENERGY AND FORESTRY	22,476,300	150,000	25,800	-	22,652,100	22,618,576	33,524
PEI ENERGY CORPORATION	561,000	-	7,400	-	568,400	568,400	-
EXECUTIVE COUNCIL	3,880,500	-	48,300	-	3,928,800	3,723,844	204,956
FINANCE AND MUNICIPAL AFFAIRS	65,167,600	-	176,900	-	65,344,500	62,236,564	3,107,936
COUNCIL OF ATLANTIC PREMIERS	188,400	-	-	-	188,400	185,512	2,888
GENERAL GOVERNMENT	5,107,800	850,000	(1,020,300)	-	4,937,500	4,469,689	467,811
EMPLOYEE BENEFITS	38,942,800	-	-	-	38,942,800	57,799,630	(18,856,830)
FISHERIES, AQUACULTURE AND RURAL DEVELOPMENT	13,391,700	-	19,000	(200,000)	13,210,700	12,198,080	1,012,620
EMPLOYMENT DEVELOPMENT AGENCY	5,330,300	640,000	-	-	5,970,300	5,812,737	157,563
HEALTH AND WELLNESS	13,205,000	-	48,200	-	13,253,200	11,989,549	1,263,651
HEALTH PEI	519,598,400	5,781,000	-	-	525,379,400	525,375,489	3,911
INNOVATION AND ADVANCED LEARNING	123,483,500	4,521,000	33,900	-	128,038,400	125,061,768	2,976,632
INNOVATION PEI	26,322,800	-	46,600	-	26,369,400	26,322,800	46,600
PEI LENDING AGENCY	786,700	-	500	-	787,200	786,700	500
JUSTICE AND PUBLIC SAFETY	42,446,100	3,159,000	197,700	-	45,802,800	45,369,100	433,700
LEGISLATIVE ASSEMBLY	6,286,800	-	24,700	-	6,311,500	5,875,447	436,053
PEI PUBLIC SERVICE COMMISSION	5,556,500	-	108,300	-	5,664,800	5,436,660	228,140
TOURISM AND CULTURE	8,629,300	-	15,000	-	8,644,300	8,627,781	16,519
TOURISM PEI	15,848,000	1,643,700	18,900	-	17,510,600	17,444,386	66,214
TRANSPORTATION AND INFRASTRUCTURE RENEWAL	114,478,900	-	63,800	-	114,542,700	118,414,032	(3,871,332)
INTEREST CHARGES ON DEBT	108,106,300	-	-	-	108,106,300	104,597,711	3,508,589
TOTAL CURRENT	$ 1,497,582,400	$ 29,019,800	$ -	$ (200,000)	$ 1,526,402,200	$ 1,529,683,710	$ (3,281,510)

Note: Appropriations and expenditures are presented in accordance with the classification in the Appropriations Acts 2011. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets are recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2011	SPECIAL WARRANTS	TRANSFERS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2012	UNDER (OVER) EXPENDITURES 2012
CAPITAL							
AGRICULTURE	$ 13,300	$ -	$ -	$ -	$ 13,300	$ 288	$ 13,012
COMMUNITY SERVICES, SENIORS AND LABOUR	4,570,000	-	-	-	4,570,000	4,279,364	290,636
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	11,681,000	200,000	-	-	11,881,000	13,053,876	(1,172,876)
ENVIRONMENT, ENERGY AND FORESTRY	460,000	70,000	-	-	530,000	529,569	431
FINANCE AND MUNICIPAL AFFAIRS	7,319,500	-	-	-	7,319,500	6,270,430	1,049,070
HEATH AND WELLNESS	200,000	358,600	-	-	558,600	207,049	351,551
HEALTH PEI	65,930,000	-	-	-	65,930,000	48,260,970	17,669,030
INNOVATION AND ADVANCED LEARNING	5,000,000	-	-	(1,000,000)	4,000,000	28,622	3,971,378
INNOVATION PEI	-	1,000,000	-	-	1,000,000	-	1,000,000
JUSTICE AND PUBLIC SAFETY	1,375,000	-	-	(451,600)	923,400	384,287	539,113
TOURISM AND CULTURE	100,000	-	-	-	100,000	100,000	-
TOURISM PEI	600,000	600,000	-	-	1,200,000	1,200,000	-
TRANSPORTATION AND INFRASTRUCTURE RENEWAL	40,441,300	-	-	-	40,441,300	46,022,657	(5,581,357)
TOTAL CAPITAL	$ 137,690,100	$ 2,228,600	$ -	$ (1,451,600)	$ 138,467,100	$ 120,337,112	$ 18,129,988
GRAND TOTAL	$ 1,635,272,500	$ 31,248,800	$ -	$ (1,651,600)	$ 1,664,869,300	$ 1,650,020,822	$ 14,848,478

ORDER-IN-COUNCIL	SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2012 FISCAL YEAR		
	AGRICULTURE		
EC2012-125	**FARM INCOME AND RISK MANAGEMENT**		
	Grants - Production Insurance	$1,265,500	
	DIVISION MANAGEMENT		
	Grants - Miscellaneous	3,100,000	4,365,500
	To fund the increase in expenditures related to the Production Insurance Program and the Atlantic Beef Products Plant.		
EC2012-382	**DIVISION MANAGEMENT**		
	Grants - Miscellaneous		210,000
	To fund an increase in expenditures relating to H1N1 Hog Loans.		
EC2013-42	**FARM INCOME AND RISK MANAGEMENT**		
	Grants - AgriInvest		853,900
	To fund the increase in expenditures related to AgriInvest Programs.		
	Total		$ 5,429,400
	COMMUNITY SERVICES, SENIORS AND LABOUR		
EC2012-126	**ADMINISTRATION**		
	Salaries		$ 18,500
	GENERAL		
	Salaries		72,400
	CHILD AND FAMILY		
	Salaries		2,853,700
	SOCIAL PROGRAMS		
	Grants - Disability Support Program		3,090,500

ORDER-IN-COUNCIL	SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2012 FISCAL YEAR	
	HOUSING PROGRAMS	
	Salaries	762,100
	SENIORS	
	Salaries	48,500
		$ 6,845,700
	To fund additional costs for disability support, child protection and housing programs.	
	ENVIRONMENT, ENERGY AND FORESTRY	
EC2012-383	**ENVIRONMENTAL ASSESSMENT AND LAND MANAGEMENT**	
	Professional and Contract Services	$ 150,000
	To fund costs in excess of budget for environmental land management.	
	GENERAL GOVERNMENT	
EC2012-134	**CONTINGENCY FUND**	
	Administration	$ 850,000
	To fund meeting and hosted conference expenses for the July 2011 Royal Visit.	
	EMPLOYMENT DEVELOPMENT AGENCY	
EC2011-652	**COMMUNITY BUSINESS PROJECTS**	
	Grants - Special Projects Program	$ 498,000
	Grants - Jobs for Youth Program	142,000
		$ 640,000
	To fund additional costs for job creation projects.	
	HEALTH PEI	
EC2012-384	**GENERAL**	
	Professional and Contract Services	$ 990,800

ORDER-IN-COUNCIL	SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2012 FISCAL YEAR		
	QUEEN ELIZABETH HOSPITAL		
	Materials, Supplies, and Services	1,006,600	
	Professional and Contract Services	314,500	
	Salaries	981,100	2,302,200
	PROVINCIAL HOMES AND MANORS		
	Salaries		1,056,000
	PROVINCIAL AMBULANCE AND DRUG PROGRAMS		
	Grants - Pharmacare Programs		1,432,000
	Total		$ 5,781,000
	To fund additional costs for physicians, acute care, drug programs, and provincial homes and manors.		
	INNOVATION AND ADVANCED LEARNING		
EC2012-129	**POST SECONDARY GRANTS**		
	Grants - Holland College (Knowledge Infrastructure Program)	$2,559,200	
	Grants - Maritime Provinces Higher Education Commission	1,464,700	4,023,900
	SKILLS PEI		
	Grants - Federal Programs (Foreign Qualification Recognition Program)		497,100
	Total		$ 4,521,000
	To fund costs for the Knowlege Infrastructure Program and Foreign Qualifications Recognition Program. Fully offset by Federal revenue of $3,056,300. In addition, to fund costs under the Regional Transfer Agreement administered by the Maritime Provinces Higher Education Commission.		
	JUSTICE AND PUBLIC SAFETY		
EC2012-135	**PROVINCIAL POLICING SERVICES - RCMP**		
	Professional and Contract Services	$1,512,900	
	PROVINCIAL CORRECTIONAL CENTRE		
	Equipment	26,300	
	Materials, Supplies, and Services	168,500	
	Salaries	199,900	394,700

ORDER-IN-COUNCIL	SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2012 FISCAL YEAR			
	PRINCE COUNTY CORRECTIONAL CENTRE			
	Materials, Supplies, and Services	2,800		
	Salaries	43,000	45,800	
	SUMMERSIDE YOUTH CENTRE			
	Salaries		183,800	
	HUMAN RIGHTS COMMISSION			
	Grants		38,800	2,176,000
	To fund over-expenditures to the RCMP "L" Division for Provincial Policing Services; Special Events - Cavendish Beach Music Festival; and the Royal Visit, Human Rights Commission for hearings and translation services; and Community and Correctional Services Division for unfunded leaves, food costs, overcrowding, staffing, and management of high risk offenders.			
EC2012-484	**ADMINISTRATION**			
	Professional and Contract Services			983,000
	To fund costs related to Maritime Radio Communication Initiative previously capitalized. Partially offset by a sequestration of funds from Justice and Public Safety - Capital of $451,600.			
	Total			$ 3,159,000
	TOURISM PEI			
EC2012-19	**PARK OPERATIONS**			
	Salaries			$ 55,500
	MARKETING			
	Materials, Supplies, and Services			190,200
	PARKS MANAGEMENT			
	Grants - Miscellaneous			1,398,000
	Total			$ 1,643,700
	To fund additional costs for park wages, advertising, and promotion expenditures.			
	TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES			**$29,019,800**

ORDER-IN-COUNCIL	SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2012 FISCAL YEAR	
	EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	
EC2012-127	**SCHOOL RENOVATIONS**	
	Capital - Buildings	$ 200,000
	To fund construction of an Early Years Centre in Hunter River. Fully offset by sequestration of funds from Fisheries, Aquaculture and Rural Development's operating budget.	
	ENVIRONMENT, ENERGY AND FORESTRY	
EC2012-46	**CAPITAL IMPROVEMENTS**	
	Capital - Maintenance and Impoundments	$ 70,000
	To fund additional costs for impoundments. Fully offset by revenue from Ducks Unlimited Canada.	
	HEALTH AND WELLNESS	
EC2012-128	**CAPITAL PROJECTS**	
	Capital - Computer Software	$ 358,600
	To fund the development of an Integrated Birth Registration and Social Insurance number system for Vital Statistics. Fully offset by Federal Revenue from the Information Sharing Agreement.	
	INNOVATION PEI	
EC2011-653	**CAPITAL PROJECTS**	
	Capital - Machinery and Equipment	$ 1,000,000
	To fund the costs for a generic lab facility fit-up within the PEI BioCommons Research Park. Fully offset by sequestration of funds from Innovation and Advanced Learning.	
	TOURISM PEI	
EC2011-271	**CAPITAL EQUIPMENT**	
	Capital - Machinery and Equipment	$ 600,000
	To fund the costs of capital equipment for provincially-owned golf courses.	
	TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES	**$ 2,228,600**
	TOTAL SPECIAL WARRANTS ISSUED FOR THE 2012 FISCAL YEAR	**$31,248,400**